BUFFALO CITY METROPOLITAN MUNICIPALITY CONSOL
Unaudited Consolidated Annual Financial Statements
for the year ended 30 June 2019

I am responsible for the preparation of these Annual Financial Statements which are set out herewith, in terms of Section126(1) of the Municipal Finance Management Act (56 of 2003) and which I have signed on behalf of the Metropolitan Municipalily.

I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (20 of 1998) and the Minister for Corporate Governance and Traditional Affairs determination in accordance with this Act except where identified as irregular expenditure in the Annual Financial Statements.

| | |
|---|---|
| **Mr. A. Sihlahla**<br>**City Manager** | **Date** |

# General Information

| | |
|---|---|
| **Legal form of Entity** | Municipality |
| **Nature of business and principal activities** | Local Government |
| **Jurisdiction** | The demarcation board has determined that Buffalo City Metropolitan Municipality (BUF) includes the towns of East London, Bisho, King William's Town, Berlin as well as the townships of Mdantsane, Gompo, Zwelitsha, Dimbaza, Phakamisa, Ndevana, Ilitha, Ginsberg and the surrounding rural areas. |
| **Grading of local authority** | Grade 6 Municipality |
| **City Manager / Accounting Officer** | Mr. A. Sihlahla |
| **Chief Financial Officer** | Mr. N. Sigcau |
| **Business address** | Trust Centre<br>Oxford Street<br>East London<br>5201 |
| **Postal address** | PO Box 134<br>East London<br>5200 |
| **Bankers** | Standard Bank |
| **Auditors** | Auditor General of South Africa |
| **Members of Audit Committee** | Ms. R. Shaw (Chairperson) - appointment 03 July 2017<br>Ms. Y. Roboji (Member) - appointment 03 July 2017<br>Mr. P. Ntuli (Member) - appointment 03 July 2017<br>Mr. S. Sokutu (Member) - appointment 03 July 2017<br>Ms. P. Mzizi (Member) - appointment 03 July 2017<br>Mr. T. Zororo (Member) - appointment 03 July 2017 |
| **Legislation Governing the Municipality** | The Constitution of the Republic of South Africa,1996<br>The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998)<br>The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)<br>The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)<br>Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004)<br>Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007)<br>Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998)<br>Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)<br>Division of Revenue Act (Act 1 of 2007) |

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The reports and statements set out below comprise the unaudited consolidated annual financial statements presented to the provincial legislature:

## Statement of Financial Position as at 30 June 2019

| Figures in Rand | Note(s) | 2019 | 2018 Restated* |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Inventories | 10 | 37 339 305 | 42 789 558 |
| Receivables from exchange transactions - BCMDA | 11 | 347 034 | 101 763 |
| Receivables from non-exchange transactions | 12 | 375 218 046 | 229 483 321 |
| VAT receivable | 13 | 171 216 361 | 110 145 810 |
| Receivables from exchange transactions | 14 | 978 274 208 | 897 181 229 |
| Cash and cash equivalents | 15 | 1 171 632 915 | 1 825 496 588 |
| | | **2 734 027 869** | **3 105 198 269** |
| Non-Current Assets | | | |
| Investment property | 3 | 401 546 000 | 392 622 726 |
| Property, plant and equipment | 4 | 19 741 847 731 | 18 227 824 346 |
| Intangible assets | 5 | 20 503 472 | 25 063 814 |
| Heritage assets | 6 | 50 513 440 | 49 779 875 |
| Investments in associates | 7 | 652 038 851 | 575 291 818 |
| Deferred tax | 8 | 317 100 | 602 051 |
| | | **20 866 766 594** | **19 271 184 630** |
| **Total Assets** | | **23 600 794 463** | **22 376 382 899** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Borrowings | 18 | 57 973 556 | 52 572 023 |
| Current tax payable | 46 | 1 278 326 | 702 236 |
| Trade payables from exchange transactions | 22 | 1 035 463 095 | 1 068 477 195 |
| Consumer deposits | 23 | 64 109 019 | 60 012 613 |
| Employee benefit obligation | 9 | 69 629 417 | 47 001 770 |
| Unspent conditional grants and receipts | 17 | 210 610 282 | 245 352 358 |
| Provisions | 19 | 246 000 151 | 241 499 393 |
| | | **1 685 063 846** | **1 715 617 588** |
| Non-Current Liabilities | | | |
| Borrowings | 18 | 287 580 532 | 345 554 088 |
| Employee benefit obligation | 9 | 659 185 670 | 686 152 861 |
| Provisions | 19 | 11 158 873 | 10 459 392 |
| | | **957 925 075** | **1 042 166 341** |
| **Total Liabilities** | | **2 642 988 921** | **2 757 783 929** |
| **Net Assets** | | **20 957 805 542** | **19 618 598 970** |
| Reserves | | | |
| Revaluation reserve | 16 | 9 866 999 401 | 9 046 230 471 |
| Accumulated surplus | | 11 090 806 141 | 10 572 368 499 |
| **Total Net Assets** | | **20 957 805 542** | **19 618 598 970** |

* See Note 51

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2019 | 2018 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 25 | 2 820 302 005 | 2 589 562 060 |
| Rental of facilities and equipment | 26 | 20 704 443 | 15 882 120 |
| Fees earned - BCMDA | | 215 217 | 123 740 |
| Other revenue - (exchange) | 27 | 162 106 701 | 155 352 131 |
| Interest received | 28 | 165 783 829 | 176 012 022 |
| **Total revenue from exchange transactions** | | **3 169 112 195** | **2 936 932 073** |
| **Revenue from non-exchange transactions** | | | |
| Property rates | 29 | 1 294 948 221 | 973 025 312 |
| Licences and Permits (non-exchange) | | 14 300 355 | 14 249 685 |
| Government grants & subsidies | 31 | 1 918 941 337 | 1 748 157 009 |
| Other revenue - (non-exchange) | 32 | 58 289 294 | 57 512 912 |
| Public contributions and donations - PPE | | 279 066 643 | 3 393 726 |
| Fines | | 24 938 282 | 23 698 183 |
| Fuel levy | | 513 844 000 | 467 978 000 |
| **Total revenue from non-exchange transactions** | | **4 104 328 132** | **3 288 014 827** |
| **Total revenue** | 24 | **7 273 440 327** | **6 224 946 900** |
| **Expenditure** | | | |
| Employee related costs | 33 | (2 040 046 299) | (1 867 949 038) |
| Remuneration of councillors | 34 | (63 065 986) | (60 372 732) |
| Depreciation and amortisation | 36 | (1 300 025 257) | (1 017 025 636) |
| Finance costs | 37 | (38 467 001) | (43 959 792) |
| Debt Impairment | 38 | (363 972 687) | (321 276 963) |
| Contracted services | 35 | (6 126 970) | (3 207 426) |
| Bulk purchases | 39 | (1 628 956 804) | (1 552 488 423) |
| Repairs and maintenance | 40 | (387 706 926) | (355 848 175) |
| Grants and subsidies paid | 30 | (47 193 237) | (39 330 255) |
| General expenses | 41 | (917 907 447) | (790 660 611) |
| **Total expenditure** | | **(6 793 468 614)** | **(6 052 119 051)** |
| **Operating surplus** | | **479 971 713** | **172 827 849** |
| Loss on disposal of assets | | (46 324 822) | (21 014 118) |
| Fair value adjustments | 42 | 8 923 274 | 31 775 077 |
| Impairment loss | | (18 537) | - |
| Share of surplus of associate accounted for under the equity method | 7 | 76 747 032 | 32 544 710 |
| Write off of Intangible assets - BCMDA | | - | (14 316) |
| | | **39 326 947** | **43 291 353** |
| **Surplus before taxation** | | **519 298 660** | **216 119 202** |
| Taxation | 44 | 861 040 | (538 253) |
| **Surplus for the year** | | **518 437 620** | **216 657 455** |

* See Note 51

# Statement of Changes in Net Assets

| Figures in Rand | Revaluation reserve | Accumulated surplus | Total net assets |
|---|---|---|---|
| Opening balance as previously reported | 6 925 099 057 | 10 113 472 413 | 17 038 571 470 |
| Adjustments | | | |
| Prior year adjustments (prior to 2017/18) Refer note 51 | - | 242 238 629 | 242 238 629 |
| **Balance at 01 July 2017 as restated*** | **6 925 099 057** | **10 355 711 042** | **17 280 810 099** |
| Changes in net assets | | | |
| Revaluation reserve | 2 121 131 414 | - | 2 121 131 414 |
| Net income (losses) recognised directly in net assets | 2 121 131 414 | - | 2 121 131 414 |
| Surplus for the year (2017/18 restated) Refer note 51 | - | 216 657 455 | 216 657 455 |
| Total recognised income and expenses for the year | 2 121 131 414 | 216 657 455 | 2 337 788 869 |
| Total changes | 2 121 131 414 | 216 657 455 | 2 337 788 869 |
| **Restated* Balance at 01 July 2018** | **9 046 230 471** | **10 572 368 499** | **19 618 598 970** |
| Changes in net assets | | | |
| Revaluation | 820 768 930 | - | 820 768 930 |
| Net income (losses) recognised directly in net assets | 820 768 930 | - | 820 768 930 |
| Surplus for the year | - | 518 437 642 | 518 437 642 |
| Total recognised income and expenses for the year | 820 768 930 | 518 437 642 | 1 339 206 572 |
| Total changes | 820 768 930 | 518 437 642 | 1 339 206 572 |
| **Balance at 30 June 2019** | **9 866 999 401** | **11 090 806 141** | **20 957 805 542** |
| Note(s) | 16 | 51 | |

* See Note 51

# Cash Flow Statement

| Figures in Rand | Note(s) | 2019 | 2018 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | 59 | 4 587 020 176 | 4 035 988 680 |
| Government grants & subsidies | 59 | 1 918 941 337 | 1 748 157 009 |
| Interest income | 28 | 165 783 829 | 176 012 022 |
| | | 6 671 745 342 | 5 960 157 711 |
| **Payments** | | | |
| Employee costs & Councillors remuneration | 33&34 | (2 103 112 284) | (1 928 321 770) |
| Suppliers | 59 | (3 373 669 022) | (2 487 061 409) |
| Finance costs | 37 | (38 467 001) | (43 959 792) |
| | | (5 515 248 307) | (4 459 342 971) |
| **Net cash flows used in operating activities** | 45 | **1 156 497 035** | **1 500 814 740** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 4 | (1 757 702 745) | (1 331 997 006) |
| Proceeds from sale of property, plant and equipment | 4 | 2 226 048 | 112 722 |
| Proceeds from sale of investment property | 3 | - | 14 357 941 |
| Purchase of other intangible assets | 5 | (1 578 425) | (252 211) |
| Purchases of heritage assets | 6 | (733 565) | - |
| **Net cash flows used in investing activities** | | **(1 757 788 687)** | **(1 317 778 554)** |
| **Cash flows from financing activities** | | | |
| Net movement on borrowings | 18 | (52 572 023) | (47 641 565) |
| **Net cash flows used in financing activities** | | **(52 572 023)** | **(47 641 565)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(653 863 675)** | **135 394 621** |
| Cash and cash equivalents at the beginning of the year | | 1 825 496 588 | 1 690 101 970 |
| **Cash and cash equivalents at the end of the year** | 15 | **1 171 632 913** | **1 825 496 591** |

* See Note 51

# Statement of Comparison of Budget and Actual Amounts

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Detail of Statement of Financial Position** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Property rates | 1 421 961 287 | (4 800 000) | 1 417 161 287 | - | | 1 417 161 287 | 1 294 948 221 | | (122 213 066) | 91 % | 91 % |
| Service charges | 3 172 284 692 | (21 203 666) | 3 151 081 026 | - | | 3 151 081 026 | 2 820 302 005 | | (330 779 021) | 90 % | 89 % |
| Investment revenue | 140 961 479 | (330 376) | 140 631 103 | - | | 140 631 103 | 98 690 424 | | (41 940 679) | 70 % | 70 % |
| Transfers recognised - operational | 1 471 672 870 | 45 552 308 | 1 517 225 178 | - | | 1 517 225 178 | 1 435 031 160 | | (82 194 018) | 95 % | 98 % |
| Other own revenue | 310 341 935 | 23 058 261 | 333 400 196 | - | | 333 400 196 | 362 155 328 | | 28 755 132 | 109 % | 117 % |
| **Total revenue (excluding capital transfers and contributions)** | **6 517 222 263** | **42 276 527** | **6 559 498 790** | **-** | | **6 559 498 790** | **6 011 127 138** | | **(548 371 652)** | **92 %** | **92 %** |
| Employee costs | (1 961 117 601) | (63 048 599) | (2 024 166 200) | - | - | (2 024 166 200) | (2 040 046 299) | - | (15 880 099) | 101 % | 104 % |
| Remuneration of councillors | (65 035 043) | 850 000 | (64 185 043) | - | - | (64 185 043) | (63 065 986) | - | 1 119 057 | 98 % | 97 % |
| Debt impairment | (343 696 466) | (14 640 000) | (358 336 466) | | | (358 336 466) | (363 972 687) | - | (5 636 221) | 102 % | 106 % |
| Depreciation and asset impairment | (896 425 520) | (499 864 238) | (1 396 289 758) | | | (1 396 289 758) | (1 300 043 794) | - | 96 245 964 | 93 % | 145 % |
| Finance charges | (59 817 900) | 20 805 000 | (39 012 900) | - | - | (39 012 900) | (38 467 001) | - | 545 899 | 99 % | 64 % |
| Materials and bulk purchases | (1 698 509 600) | 69 200 000 | (1 629 309 600) | - | - | (1 629 309 600) | (1 628 956 804) | - | 352 796 | 100 % | 96 % |
| Transfers and grants | (60 526 334) | (9 434 328) | (69 960 662) | - | - | (69 960 662) | (47 193 237) | - | 22 767 425 | 67 % | 78 % |
| Other expenditure | (1 428 162 858) | (46 117 577) | (1 474 280 435) | - | - | (1 474 280 435) | (1 363 650 521) | - | 110 629 914 | 92 % | 95 % |
| **Total expenditure** | **(6 513 291 322)** | **(542 249 742)** | **(7 055 541 064)** | **-** | **-** | **(7 055 541 064)** | **(6 845 396 329)** | **-** | **210 144 735** | **97 %** | **105 %** |
| **Surplus/(Deficit)** | **3 930 941** | **(499 973 215)** | **(496 042 274)** | **-** | | **(496 042 274)** | **(834 269 191)** | | **(338 226 917)** | **168 %** | **(21 223)%** |

## Statement of Comparison of Budget and Actual Amounts

| Figures in Rand | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transfers recognised - capital | 803 900 240 | 196 422 212 | 1 000 322 452 | - | | 1 000 322 452 | 997 754 177 | | (2 568 275) | 100 % | 124 % |
| Contributions recognised - capital and contributed assets | - | - | - | - | | - | 279 066 643 | | 279 066 643 | DIV/0 % | DIV/0 % |
| **Surplus (Deficit) after capital transfers and contributions** | **807 831 181** | **(303 551 003)** | **504 280 178** | **-** | | **504 280 178** | **442 551 629** | | **(61 728 549)** | **88 %** | **55 %** |
| Share of surplus (deficit) of associate | - | - | - | - | | - | (76 747 032) | | (76 747 032) | DIV/0 % | DIV/0 % |
| Taxation | - | - | - | - | | - | 861 040 | | 861 040 | DIV/0 % | DIV/0 % |
| **Surplus/(Deficit) for the year** | **807 831 181** | **(303 551 003)** | **504 280 178** | **-** | | **504 280 178** | **518 437 621** | | **14 157 443** | **103 %** | **64 %** |
| **Capital expenditure and funds sources** | | | | | | | | | | | |
| Total capital expenditure | 1 753 141 990 | 343 228 384 | 2 096 370 374 | - | | 2 096 370 374 | 1 754 245 858 | | (342 124 516) | 84 % | 100 % |
| **Sources of capital funds** | | | | | | | | | | | |
| Transfers recognised - capital | 803 900 240 | 196 422 212 | 1 000 322 452 | - | | 1 000 322 452 | 860 189 344 | | (140 133 108) | 86 % | 107 % |
| Borrowing | 69 000 000 | (69 000 000) | - | - | | - | - | | - | DIV/0 % | - % |
| Internally generated funds | 880 241 750 | 215 806 172 | 1 096 047 922 | - | | 1 096 047 922 | 894 056 514 | | (201 991 408) | 82 % | 102 % |
| **Total sources of capital funds** | **1 753 141 990** | **343 228 384** | **2 096 370 374** | **-** | | **2 096 370 374** | **1 754 245 858** | | **(342 124 516)** | **84 %** | **100 %** |

# BUFFALO CITY METROPOLITAN MUNICIPALITY CONSOL

Unaudited Consolidated Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows** | | | | | | | | | | | |
| Net cash from (used) operating | 1 683 238 070 | 212 125 457 | 1 895 363 527 | - | | 1 895 363 527 | 1 156 497 035 | | (738 866 492) | 61 % | 69 % |
| Net cash from (used) investing | (1 753 141 990) | (343 228 383) | (2 096 370 373) | - | | (2 096 370 373) | (1 757 788 687) | | 338 581 686 | 84 % | 100 % |
| Net cash from (used) financing | 9 332 862 | (67 306 418) | (57 973 556) | - | | (57 973 556) | (52 572 023) | | 5 401 533 | 91 % | (563)% |
| **Net increase/(decrease) in cash and cash equivalents** | **(60 571 058)** | **(198 409 344)** | **(258 980 402)** | **-** | | **(258 980 402)** | **(653 863 675)** | | **(394 883 273)** | **252 %** | **1 079 %** |
| Cash and cash equivalents at the beginning of the year | 1 699 821 867 | 125 307 734 | 1 825 129 601 | - | | 1 825 129 601 | 1 825 496 588 | | 366 987 | 100 % | 107 % |
| **Cash and cash equivalents at year end** | **1 639 250 809** | **(73 101 610)** | **1 566 149 199** | **-** | | **1 566 149 199** | **1 171 632 913** | | **394 516 286** | **75 %** | **71 %** |

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

| | Reported unauthorised expenditure | Expenditure authorised in terms of section 32 of MFMA | Balance to be recovered | Restated audited outcome |
|---|---|---|---|---|

**Explanation of significant variances greater than 10% on budget comparison to actuals**

Reasons for material variances shown on the Statement of Comparison of Budget and Actual Amounts are detailed below:

**REVENUE BY SOURCE**

**Investment Revenue**

Interest rate on call investments are less than the prior year resulting in less interest realised for the year-end 30 June 2019. In addition, Cash and Cash Equivalent levels decreased when compared with prior year-end balance. The impact of the lower Cash and Cash Equivalent levels meant that less funds were available to invest, and less interest was realised.

**Other Own Revenue**

The variance is due to certain items being classified as service charges on mSCOA.

**CAPITAL EXPENDITURE AND FUNDS SOURCES**

**Contributions Recognised**

BCMM recognised assets transferred by other Municipalities in terms of the demarcation pronounced 3rd August 2016.

**Internally generated funds**

The major contributing factors on low expenditure are procurement and project management inefficiencies that resulted in the slow progress in implementing own funded capital projects, however most of the projects are already awarded and the funding of such projects is fully committed.

**CASH FLOWS**

**Net cash from (used) investing**

Capital assets paid for were less than the adjusted budget due to under expenditure on own funded capital budget.

**Net cash from (used) financing**

BCMM did not take up the originally budgeted loan funding during 2018/19.

# Accounting Policies

### 1. Presentation of Unaudited Consolidated Annual Financial Statements

The unaudited consolidated annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These unaudited consolidated annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these unaudited consolidated annual financial statements, are disclosed below.

### 1.1 Going concern assumption

These unaudited consolidated annual financial statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the unaudited consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the unaudited consolidated annual financial statements. Significant judgements include:

**Trade receivables / Held to maturity investments and/or loans and receivables**

The entity assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

**Allowance for slow moving, damaged and obsolete stock**

An allowance has been made for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the notes to the financial statements per inventory note 10.

**Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the entity is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the entity for similar financial instruments.

# Accounting Policies

### 1.2 Significant judgements and sources of estimation uncertainty (continued)

**Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including i.e. production estimates, supply demand, together with economic factors such as exchange rates, inflation and interest.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

**Taxation**

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

**Useful lives of waste water and water network and other assets**

The entity's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

**Post-retirement benefits**

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

**Effective interest rate**

The entity used the prime interest rate to discount future cash flows.

### 1.2 Significant judgements and sources of estimation uncertainty (continued)

**Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both - or under construction) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property exludes owner-occupied property.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

**Fair value**

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

### 1.3 Investment property (continued)

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) commencement of development with a view to sale, for a transfer from investment property to inventories;
(c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
(d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

The initial cost of a property interest held under a lease and classified as an investment property has been recognised at the lower of the fair value of the property and the present value of the minimum lease payments.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and standby equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

### 1.4 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses, except for land, buildings, other properties, community properties, roads, electricity, water and wastewater which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value except for furniture and fittings, which are depreciated using the diminishing balance method at 10% per annum.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land landfill sites | Straight line | 50 |
| Buildings | Straight line | 30 to 60 |
| Plant and machinery | Straight line | 3 to 30 |
| Motor vehicles | Straight line | 4 to 15 |
| Furniture and fittings | Diminishing balance | 3 to 7 |
| Electricity | Straight line | 30 to 60 |
| Community - Buildings | Straight line | 30 to 60 |
| Community - Recreation | Straight line | 15 to 60 |
| Other properties | Straight line | 5 to 60 |
| Roads | Straight line | 5 to 100 |
| Wastewater network | Straight line | 5 to 80 |
| Water network | Straight line | 5 to 150 |
| Servitudes | Straight line | Indefinite |

The entity acquires and maintains assets to provide social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than that of certain Plant and Equipment, and Transport assets with significant carrying values. For Plant and Equipment and Transport assets (Above R5000) the residual value and the useful life of an asset and the deprecation method is reviewed annually and any changes are recognised prospectively as a change in accounting estimates in the Statement of Financial Performance. Minor assets (Below R5000) are recognised and depreciated annually to R1 and are included in the asset register mainly for completeness and monitoring purposes.

# Accounting Policies

### 1.4 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of PPE are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised and will be classified as revenue. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the entity.

Servitudes are recognised as a component of property, plant and equipment as it is directly linked to the location and construction of infrastructure assets.

### 1.5 Site restoration and dismantling cost

The entity has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.6 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from a entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
- arises from contractual rights or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

When an intangible asset is acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Computer software | Straight line | 3 years |

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

### 1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an entity’s operations that is shown as a single item for the purpose of disclosure in the  unaudited consolidated annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

### 1.7 Heritage assets (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

**Recognition**

The entity recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and the cost or fair value of the asset can be measured reliably.

If a entity holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

**Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

**Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

**Impairment**

The entity assesses at each reporting date whether there is an indication that a heritage assets may be impaired. If any such indication exists, the entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

**Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

**Derecognition**

The entity derecognises heritage assets on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

## Accounting Policies

### 1.8 Investments in associates

An associate is a entity over which the entity is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investment.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

The carrying value of the investment in associates is adjusted for the municipality's share of operating surpluses/(deficits) less any dividends received.

Where the entity or its entities transact with an associate, unrealised gains and losses are eliminated to the extent of the municipality's or its municipal entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Where the entity is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

The entity uses the most recent available financial statements of the associate in applying the equity method. When the reporting dates are different, the entity makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the entity.

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by a entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or

**1.9 Financial instruments (continued)**

- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### 1.9 Financial instruments (continued)

**Classification**

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position and in note 20:

| Class | Category |
|---|---|
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position and in note 21:

| Class | Category |
|---|---|
| Borrowings | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Unspent conditional grants and receipts | Financial liability measured at amortised cost |
| Accrued leave pay | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at fair value |
| Other deposits | Financial liability measured at fair value |

**Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

**Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

### 1.9 Financial instruments (continued)

**Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

**Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

**Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

**Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

**Impairment and uncollectibility of financial assets**

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

### 1.9 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

**Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.10 Tax

**Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

### 1.10 Tax (continued)

**Deferred tax assets and liabilities**

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**Tax expenses**

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

### 1.11 Leases

A lease is either a written or implied contract by which an owner (the lessor) of a specific asset grants a second party (the lessee) the right to its exclusive possession and use for a specific period and under spedific conditions, in return for specific periodic rental or lease payments.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

## Accounting Policies

### 1.12 Inventories (continued)

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.13 Impairment of cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

### 1.13 Impairment of cash-generating assets (continued)

**Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

**Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

**Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

### 1.13 Impairment of cash-generating assets (continued)

**Reversal of impairment loss**

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.14 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation/amortisation.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation and/or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

### 1.14 Impairment of non-cash-generating assets (continued)

At each reporting date a review is carried out to determine whether there are any indications that any assets and non-cash-generating units may be impaired. If such indications exist, the recoverable amounts of the affected assets are determined.

Where the recoverable amount of an asset or non-cash-generating unit is lower than its carrying amount, an impairment loss is recognised in surplus or deficit in respect of assets at historic cost, and recognised in the the revaluation reserve in respect of assets at revalued amounts.

**Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

**Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

**Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

**Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Accounting Policies

### 1.14 Impairment of non-cash-generating assets (continued)

**Reversal of an impairment loss**

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.15 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### 1.15 Employee benefits (continued)

**Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

**Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

**Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

# Accounting Policies

**1.15 Employee benefits (continued)**

**Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the unaudited consolidated annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

**1.15 Employee benefits (continued)**

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### 1.15 Employee benefits (continued)

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.16 Provisions and contingencies

Provisions are recognised when:
- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If a entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

# Accounting Policies

### 1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when a municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 49.

### 1.17 Commitments

Items are classified as commitments when the entity has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the entity determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements differentiating between community, infrastructure and other capital expenditure commitments. (Refer to note 48)

### 1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

# Accounting Policies

### 1.18 Revenue from exchange transactions (continued)

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Service charges relating to solid waste, sanitation and sewerage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and revenue is recognised in the period when the consumption took place. Provisional estimates of consumption are made monthly when meter readings have not been performed. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

To include all revenue in the financial period, calculations and accruals are made to account for consumption that took place during the last meter reading dates and the financial year end.

Services provided on a prepayment basis are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end, based on the average consumption history.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

### 1.18 Revenue from exchange transactions (continued)

**Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the entity’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

Taxes such as property rates are economic benefits or service potential compulsorily paid or payable to the entity, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

**Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### 1.19 Revenue from non-exchange transactions (continued)

**Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

**Taxes (Property rates)**

The entity recognises an asset in respect of taxes at the gross amount when the taxable event occurs and the asset recognition criteria are met.

**Transfers**

The entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

**Debt forgiveness and assumption of liabilities**

The entity recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

**Fines**

Fines are economic benefits or service potential received or receivable by the entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Where the entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Traffic fines are accounted for at a net value based on total outstanding fines calculated using the average of the previous three years less impairment based on a probability collection factor calculated using the average of the previous 5 years.

**Bequests**

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the fair value of the assets can be measured reliably.

**Gifts and donations, including goods in-kind**

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

### 1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.21 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the entity, and the costs can be measured reliably. The entity applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.12, 1.13 and 1.14. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.23 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements is recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements. Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end is recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements is updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority is recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

### 1.26 Use of estimates

The preparation of unaudited annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the unaudited annual financial statements are disclosed in the relevant sections of the unaudited annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.27 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.28 Off-setting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.29 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.30 Budget information

Entity are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

# Accounting Policies

### 1.30 Budget information (continued)

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

Comparative information is not required.

Differences between budget and actual amounts are regarded as material differences when a 10% difference exists. All material differences are explained in the Statement of Comparison of Budget and Actual Amounts to the annual financial statements.

### 1.31 Related parties

Parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of the entity. (Refer to note 50)

### 1.32 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.33 Value added tax (VAT)

The entity accounts for value added tax on the payment basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT recoverable from or payable to, the taxation authority is disclosed on the face of the statement of financial position. (Refer to note 13)

### 1.34 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 2. New standards and interpretations

### 2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2019 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 110 (as amended 2016): Living and Non-living Resources | 01 April 2020 | Unlikely there will be a material impact |
| • Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 7 (as revised 2010): Investments in Associates | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 8 (as revised 2010): Interests in Joint Ventures | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 18 (as amended 2016): Segment Reporting | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 20: Related parties | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 32: Service Concession Arrangements: Grantor | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 105: Transfers of functions between entities under common control | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 106 (as amended 2016): Transfers of functions between entities not under common control | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 107: Mergers | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 108: Statutory Receivables | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 109: Accounting by Principals and Agents | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 19: Liabilities to Pay Levies | 01 April 2019 | Unlikely there will be a material impact |

### 3. Investment property

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Investment property | 401 546 000 | - | 401 546 000 | 392 622 726 | - | 392 622 726 |

**Reconciliation of investment property - 2019**

| | **Opening balance** | **Fair value adjustments** | **Total** |
|---|---|---|---|
| Investment property | 392 622 726 | 8 923 274 | 401 546 000 |

**Reconciliation of investment property - 2018**

| | **Opening balance** | **Derecognition** | **Fair value adjustments** | **Total** |
|---|---|---|---|---|
| Investment property | 375 205 590 | (14 357 941) | 31 775 077 | 392 622 726 |

A register containing the information required by section 63 of the Municipal Finance Management Act No 56 of 2003 is available for inspection at the registered office of the entity.

No Investment Properties are pledged as a security and there are no restrictions on all the Investment Properties.

The total direct operating expenses for repairs and maintenance on all municipal properties amounts to R387 717 976 including repairs and maintenance expenses on investment properties. Refer to repairs and maintenance note 40 and commitments note 48.

### 3. Investment property (continued)

Operational expenditure regarding investment property earning rentals and those that are not earning rentals are not available as these expenses pertaining to investment properties are not budgeted for separately on the budget.

Per accounting policy Note 1.2 the entity is on the fair value(FV) model of meassuring Investment Property.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The values were determined jointly by an external property valuer, through the update of the Investment Property. All the properties were individually valued by the Poperty Valuers and assumptions used are detailed per each property.

Registration details of internal and external valuers involved in the valuation were as follows;
Mr Graham, Professional Valuer (3841)

Properties were individually valued using a specific method that is best applicable to each property. The full methodology and assumptions used are available for review to each propety certificate.

Rental income from investment properties in respect of monthly and annual leases amounted to R16 045 368, (2018: R15 882 120).

### 4. Property, plant and equipment

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land | 81 658 476 | - | 81 658 476 | 81 658 475 | - | 81 658 475 |
| Plant and equipment | 120 597 151 | (76 416 614) | 44 180 537 | 115 657 529 | (62 739 205) | 52 918 324 |
| Furniture and fittings | 137 390 589 | (87 158 098) | 50 232 491 | 124 504 560 | (65 250 677) | 59 253 883 |
| Motor vehicles | 582 164 495 | (224 380 687) | 357 783 808 | 527 154 065 | (186 035 793) | 341 118 272 |
| IT equipment | 705 442 | (469 710) | 235 732 | 557 362 | (281 061) | 276 301 |
| Electricity infrastructure | 10 616 859 824 | (6 838 345 512) | 3 778 514 312 | 9 875 645 071 | (6 182 632 324) | 3 693 012 747 |
| Other properties ( halls, social housing) | 1 782 721 793 | (848 157 315) | 934 564 478 | 1 696 609 623 | (797 964 482) | 898 645 141 |
| Work in progress (WIP) | 4 038 166 366 | - | 4 038 166 366 | 2 962 310 164 | - | 2 962 310 164 |
| Recreational facilities | 810 184 572 | (529 402 943) | 280 781 629 | 749 055 738 | (483 120 116) | 265 935 622 |
| Roads | 12 562 521 769 | (7 766 577 096) | 4 795 944 673 | 11 505 344 069 | (6 416 481 363) | 5 088 862 706 |
| Wastewater network | 2 085 698 056 | (343 109 533) | 1 742 588 523 | 1 511 467 879 | (32 262 974) | 1 479 204 905 |
| Water network | 6 404 642 834 | (3 806 350 059) | 2 598 292 775 | 5 939 828 073 | (3 631 711 491) | 2 308 116 582 |
| Community buildings | 2 079 229 333 | (1 040 325 402) | 1 038 903 931 | 1 914 402 338 | (917 891 114) | 996 511 224 |
| **Total** | **30 685 680 876** | **(21 560 692 969)** | **19 741 847 731** | **37 004 194 946** | **(18 776 370 600)** | **18 227 824 346** |

## Notes to the Unaudited Consolidated Annual Financial Statements

Figures in Rand

**4. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2019**

| | Opening balance | Additions | Disposals | WIP transfers | Transfers | Revaluations | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|---|
| Land | 81 658 476 | - | - | - | - | - | - | - | 81 658 476 |
| Plant and equipment | 52 918 324 | 4 855 880 | (4 252) | - | - | - | (13 589 415) | - | 44 180 537 |
| Furniture and fittings | 59 253 883 | 13 663 410 | (23 216) | - | - | - | (22 661 586) | - | 50 232 491 |
| Motor vehicles | 341 118 272 | 88 212 178 | (12 757 138) | - | - | - | (58 789 504) | - | 357 783 808 |
| IT equipment | 276 301 | 148 080 | - | - | - | - | (188 649) | - | 235 732 |
| Electricity infrastructure | 3 693 012 747 | 75 523 637 | (10 559 389) | 7 472 028 | - | 269 813 445 | (254 664 262) | (2 083 894) | 3 778 514 312 |
| Other properties ( halls, social housing) | 898 645 141 | 359 790 | (527 816) | 2 056 475 | 699 481 | 87 249 466 | (52 831 456) | (1 086 603) | 934 564 478 |
| Work in progress (WIP) | 2 962 310 164 | 1 487 484 747 | - | (411 628 545) | - | - | - | - | 4 038 166 366 |
| Recreational facilities | 265 935 622 | 168 460 | (6 955 655) | 28 800 | 11 470 029 | 40 027 250 | (29 864 143) | (28 734) | 280 781 629 |
| Roads | 5 088 862 706 | 10 112 578 | (15 252 222) | 107 910 846 | 238 069 206 | (117 165 560) | (516 572 484) | (20 397) | 4 795 944 673 |
| Wastewater network | 1 479 204 905 | 53 766 450 | (728 120) | 242 447 332 | - | 61 328 120 | (93 430 164) | - | 1 742 588 523 |
| Water network | 2 308 116 582 | 18 321 031 | (8 664) | 39 487 877 | 14 564 956 | 392 438 627 | (174 575 077) | (52 557) | 2 598 292 775 |
| Community buildings | 996 511 224 | 5 086 504 | (1 734 398) | 12 225 187 | 15 035 945 | 87 077 591 | (75 298 122) | - | 1 038 903 931 |
| | **18 227 824 347** | **1 757 702 745** | **(48 550 870)** | **-** | **279 839 617** | **820 768 939** | **(1 292 464 862)** | **(3 272 185)** | **19 741 847 731** |

# Notes to the Unaudited Consolidated Annual Financial Statements

Figures in Rand

**4. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2018**

| | Opening balance | Additions | Disposals | Transfers | Non cash additions | Revaluations | Depreciation | Total |
|---|---|---|---|---|---|---|---|---|
| Land | 77 967 166 | - | - | - | - | 3 691 309 | - | 81 658 475 |
| Plant and equipment | 64 443 651 | 1 742 507 | - | - | - | - | (13 267 834) | 52 918 324 |
| Furniture and fittings | 74 431 559 | 9 393 276 | (17 526) | - | - | - | (24 553 426) | 59 253 883 |
| Motor vehicles | 271 957 893 | 103 837 178 | (146 440) | - | - | - | (34 530 359) | 341 118 272 |
| IT equipment | 355 907 | 98 700 | - | - | - | - | (178 306) | 276 301 |
| Electricity infrastructure | 3 203 926 341 | 74 649 926 | (4 550 193) | 4 373 633 | 25 978 | 617 553 348 | (202 966 286) | 3 693 012 747 |
| Other properties ( halls, social housing) | 838 408 151 | 34 845 315 | - | 49 409 | - | 73 790 556 | (48 448 290) | 898 645 141 |
| Work in progress (WIP) | 2 043 023 893 | 1 083 342 994 | - | (164 056 723) | - | - | - | 2 962 310 164 |
| Recreational facilities | 250 905 550 | 1 173 561 | (389 290) | 12 915 497 | - | 29 405 877 | (28 075 573) | 265 935 622 |
| Roads | 4 381 753 072 | 9 050 236 | (6 986 964) | 37 785 067 | 3 367 747 | 1 006 507 764 | (342 614 216) | 5 088 862 706 |
| Wastewater network | 1 441 409 566 | - | (3 215 672) | 100 452 365 | - | 34 331 982 | (93 773 336) | 1 479 204 905 |
| Water network | 2 203 041 657 | 4 734 334 | (1 298 012) | 21 735 698 | - | 237 525 189 | (157 622 284) | 2 308 116 582 |
| Community buildings | 918 076 889 | 9 128 979 | (4 522 743) | 10 886 679 | - | 127 194 110 | (64 252 690) | 996 511 224 |
| | **15 769 701 295** | **1 331 997 006** | **(21 126 840)** | **24 141 625** | **3 393 725** | **2 130 000 135** | **(1 010 282 600)** | **18 227 824 346** |

| Proceeds on disposal of PPE | 2019 | 2018 |
|---|---|---|
| Carrying value of PPE | 48 550 870 | 21 126 840 |
| Net gain/(loss) on disposal of assets | (46 324 822) | (21 014 118) |
| | **2 226 048** | **112 722** |

**4. Property, plant and equipment (continued)**

There are properties for which tittle deeds are registered under the name of the Municipality but have not been included in the Municipality’s financial records. These properties are represented by RDP land, ex Ciskei and other land parcels, vacant and improved. The Municipality is of the view that these properties will have a net realisable value of NIL as they will either be transferred to RDP housing beneficiaries or have long serving residents for which there has been a delay in the transfer of tittle. It should furthermore be noted that management is of the view that the inclusion of these properties in the Annual Financial Statements could result in a misrepresentation of the financial information for users of the Annual Financial Statements.

Expenditure relating to property, plant and equipment is disclosed under repairs and maintenance note 40.

Transfers refer to the assets that have been received from other neigbouring Municipalities as a result of redetermination of Municipal boundaries in terms of the Municipal Demarcation Act).

The following property plant and equipment is in the process of being constructed or developed and is disclosed as part of work-in-progress. Work-in-progress comprises of the following classes of infrastructure.

The carrying value of the property, plant and equipment that is taking a significantly longer period of time to complete than expected and has been halted amounts to R0.00 (2019) and R0.00 (2018) and has been associated with community unrest.

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration No. 4973/1. Revaluation methodology is available at BCMM.

### 5. Intangible assets

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Software | 38 406 827 | (17 903 355) | 20 503 472 | 49 659 046 | (24 595 232) | 25 063 814 |

**Reconciliation of intangible assets - 2019**

| | **Opening balance** | **Additions** | **Amortisation** | **Impairment loss** | **Total** |
|---|---|---|---|---|---|
| Software | 25 063 814 | 1 578 425 | (6 120 230) | (18 537) | 20 503 472 |

**Reconciliation of intangible assets - 2018**

| | **Opening balance** | **Additions** | **Transfers received** | **Write off** | **Amortisation** | **Total** |
|---|---|---|---|---|---|---|
| Software | 13 252 475 | 252 211 | 18 213 980 | (14 316) | (6 640 536) | 25 063 814 |

### 6. Heritage assets

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Monuments | 7 398 532 | - | 7 398 532 | 6 664 967 | - | 6 664 967 |
| Memorials | 2 866 049 | - | 2 866 049 | 2 866 049 | - | 2 866 049 |
| Historical buildings & sites | 22 198 433 | - | 22 198 433 | 22 198 433 | - | 22 198 433 |
| Other Heritage sites | 18 050 426 | - | 18 050 426 | 18 050 426 | - | 18 050 426 |
| **Total** | **50 513 440** | **-** | **50 513 440** | **49 779 875** | **-** | **49 779 875** |

**Reconciliation of heritage assets 2019**

| | Opening balance | Additions | Total |
|---|---|---|---|
| Monuments | 6 664 967 | 733 565 | 7 398 532 |
| Memorials | 2 866 049 | - | 2 866 049 |
| Historical buildings & sites | 22 198 433 | - | 22 198 433 |
| Other Heritage sites | 18 050 426 | - | 18 050 426 |
| | **49 779 875** | **733 565** | **50 513 440** |

**Reconciliation of heritage assets 2018**

| | Opening balance | Total |
|---|---|---|
| Monuments | 6 664 967 | 6 664 967 |
| Memorials | 2 866 049 | 2 866 049 |
| Historical buildings & sites | 22 198 433 | 22 198 433 |
| Other Heritage sites | 18 050 426 | 18 050 426 |
| | **49 779 875** | **49 779 875** |

### 6. Heritage assets (continued)

Where practical, heritage assets were valued on the replacement value method and retrospectively restated on 01 July 2012 in accordance with the transitional provision applicable to GRAP 103. However, due to the nature of certain heritage assets, it is not possible or practical to establish a fair value associated with these assets and have been recognised in accordance with GRAP 103.99.

Heritage assets are reviewed annually for impairment. Some of the items carried at R1 had physical damages.

None of the City’s Heritage assets are restricted and or pledged as a security.

The additions in the Heritage assets is as a result of a newly constructed statue of Dr WB Rubusana that is erected in front of the City Hall.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
| --- | --- | --- |

## 7. Investments in associates

| Name of entity | Carrying amount 2019 | Carrying amount 2018 |
| --- | --- | --- |
| BCMM share in IDZ - 26,000 shares @ 0,01c included in the carrying amount (Unlisted) | 652 038 851 | 575 291 818 |
| **% holding** | **26%** | **26%** |

The carrying amounts of associates are shown net of impairment losses.

**Movements in carrying value**

| | | |
| --- | --- | --- |
| Opening balance | 575 291 818 | 542 747 108 |
| Share of surplus/deficit | 76 747 033 | 32 544 710 |
| | **652 038 851** | **575 291 818** |

Investment in associate amounted to R 652 038 851 (2018: R 575 291 818).

**Fair value**

Management could not make a reliable estimate of the fair value of the associate as the information to determine the fair value is not readily available. Management however believes that the face value approximates the fair value of the shares.

**Principal activities, country of incorporation and voting power**

| Legal name | Principal activity | Country of incorporation | Proportion of voting power |
| --- | --- | --- | --- |
| East London Industrial Development Zone (Pty)Ltd | Development of East London's Industrial Development Zone. | SA | 26% |

**Summary of controlled entity's interest in associate**

| | | |
| --- | --- | --- |
| Total assets | 938 037 893 | 827 627 870 |
| Total liabilities | 285 999 042 | 252 336 052 |
| Revenue | 76 747 032 | 32 544 710 |
| Surplus | 575 291 819 | 542 747 108 |
| Total equity | **652 038 851** | **575 291 818** |

**Associates with different reporting dates**

The financial statements of East London Industrial Development Zone (Proprietary) Limited have a different year end to BCMM and ELIDZ statements are prepared for the accounting period 01 April 2018 to 31 March 2019.

Per Accounting Policy 1.8, the entity uses the most recent available financial statement of the associate in applying the equity method. The amounts reflected above are for the period 01 July 2018 - 30 June 2019.

## Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 8. Deferred tax

**Deferred tax liability**

| | | |
|---|---|---|
| Deferred tax liability | 317 100 | 602 051 |

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

**Reconciliation of deferred tax asset \ (liability)**

| | | |
|---|---|---|
| At beginning of year | 602 051 | 63 798 |
| Charge for the year | (284 951) | 538 253 |
| | **317 100** | **602 051** |

### 9. Employee benefit obligations

**The amounts recognised in the statement of financial position are as follows:**

| | | |
|---|---|---|
| **Carrying value** | | |
| Balance at the beginning of the year | 733 154 631 | 712 160 259 |
| Interest cost | 66 226 017 | 62 784 568 |
| Current service cost | 45 500 660 | 45 086 372 |
| Actual employer benefit payments | (44 327 240) | (44 200 438) |
| Actuarial gain recognised in the year | (71 738 981) | (42 676 130) |
| | **728 815 087** | **733 154 631** |

| | | |
|---|---|---|
| Non-current liabilities | (659 185 670) | (686 152 861) |
| Current liabilities | (69 629 417) | (47 001 770) |
| **Net liability** | **(728 815 087)** | **(733 154 631)** |

**Net costs**

| | | |
|---|---|---|
| Interest cost | 66 226 017 | 62 784 568 |
| Current service cost | 45 500 660 | 45 086 372 |
| Actuarial gains recognised in the year | (71 738 981) | (42 676 130) |
| Employer benefits vesting | (25 020 537) | (22 569 396) |
| **Net costs per Statement of Financial Performance** | **14 967 159** | **42 625 414** |

**Post retirement medical contribution amounts recognised in the statement of financial position**

| | | |
|---|---|---|
| Balance at the beginning of the year | 537 974 627 | 527 298 221 |
| Interest costs | 50 673 684 | 48 169 637 |
| Current service cost | 25 123 633 | 24 732 544 |
| Actual employer benefit payments | (19 306 703) | (21 631 042) |
| Actuarial gain recognised in the year | (82 596 666) | (40 594 733) |
| | **511 868 575** | **537 974 627** |

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 9. Employee benefit obligations (continued)

**Post retirement medical contribution - Net cost**

| | | |
|---|---|---|
| Interest costs | 50 673 684 | 48 169 637 |
| Current service cost | 25 123 633 | 24 732 544 |
| Actuarial gains recognised in the year | (82 596 666) | (40 594 733) |
| | **(6 799 349)** | **32 307 448** |

The best estimates for the employer benefit payments in the 2019/20 financial period is expected to be R20 603 827 (The actual employer benefit payments in the 2018/19 financial period was R19 306 703).

The entity employees contribute to 5 accredited medical aid schemes, namely LA Health, Bonitas, Key Health, SAMWU Med and Hosmed. Pensioners continue on the option they belonged to on the day of their retirement.

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was prepared in July 2019 by ARCH Actuarial Consulting using the Projected Unit Credit Method.

The entity opted not to recognise the actuarial loss applying the "Corridor" method.

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. The liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member.

**Key assumptions used**

Assumptions used at the reporting date:

| | | |
|---|---|---|
| Discount rate | 9.39 % | 9.59 % |
| Health care cost inflation rate | 6.86 % | 7.40 % |
| Net-of-health-care-cost-inflation discount rate | 2.37 % | 2.04 % |
| Maximum subsidy inflation rate | 4.77 % | 5.18 % |
| Net-of-maximum-subsidy-inflation discount rate | 4.41 % | 4.20 % |
| Average retirement age | 62 | 63 |
| Continuation of membership at retirement | 75.00 | 100.00 |
| Proportion with a spouse dependant at retirement | 60.00 | 90.00 |
| Mortality during employment | SA 85-90 | SA 85-90 |
| Mortality post-employment | PA(90) -1 with a 1% mortality improvement p.a. from 2010 | PA(90) - 1 |
| **In-service members** | | |
| Number of in-service members | 3 422 | 3 304 |
| Average age | 44.6 | 44.3 |
| Average past service | 11.8 | 11.6 |
| Average present value of post-employment subsidy p.m. | R 1 501 | R 1 571 |
| Average current value of post-employment subsidy p.m. | R 2 264 | R 2 457 |
| **Continuation members** | | |
| Number of principal members | 529 | 532 |
| Average number of spouse dependants | 0.41 | 0.41 |
| Average age of members | 71.7 | 71.4 |
| Average subsidy per month | R 3 138 | R 2 960 |

**9. Employee benefit obligations (continued)**

**Sensitivity Results**

The liability at the Valuation Date was recalculated to show the effect of:

A 1% increase and decrease in the assumed rate of health care cost inflation;
A 1% increase and decrease in the discount rate;
A one-year age reduction in the assumed rates of post-employment mortality;
A one-year decrease in the assumed average retirement age; and
A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

| Assumption | Change | In-service members | Continuation members | Total | % change |
|---|---|---|---|---|---|
| Central assumptions | | 277.127 | 234.742 | 511.869 | |
| Health care inflation rate | +1% | 309.153 | 251.650 | 560.803 | 10% |
| | -1% | 240.913 | 217.737 | 458.650 | -10% |
| Discount rate | +1% | 232.433 | 215.365 | 447.798 | -13% |
| | -1% | 334.569 | 257.541 | 527.922 | 16% |
| Post-employment mortality | -1 yr | 284.629 | 243.293 | 527.922 | 3% |
| Average retirement age | -1 yr | 305.157 | 234.742 | 539.899 | 5% |
| Continuation of membership at retirement | -10% | 240.177 | 234.742 | 474.918 | -7% |

The post-employment mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 10% higher than that shown.

The table below summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 30 June 2019.

| Assumption | Change | Current service cost | Interest Cost | Total | % change |
|---|---|---|---|---|---|
| Central assumptions | | 25 123 600 | 50 673 700 | 75 797 300 | |
| Health care inflation rate | +1% | 27 866 200 | 55 184 900 | 83 051 100 | +10% |
| | -1% | 21 790 300 | 45 604 300 | 67 394 600 | -11% |
| Discount rate | +1% | 20 905 400 | 48 751 500 | 69 656 900 | -8% |
| | -1% | 30 537 200 | 52 661 200 | 83 198 400 | +10% |
| Post-employment mortality | -1 yr | 25 844 100 | 52 343 500 | 78 187 600 | +3% |
| Average retirement age | -1 yr | 27 139 700 | 54 035 400 | 81 175 100 | +7% |
| Continuation of membership at retirement | -10% | 22 611 300 | 47 573 100 | 70 184 400 | -7% |

These figures were derived at the last valuation and were presented in that report.

The table below summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 30 June 2020.

| Assumption | Change | Current service cost | Interest Cost | Total | % change |
|---|---|---|---|---|---|
| Central assumptions | | 20 993 600 | 47 118 800 | 68 112 400 | |
| Health care inflation rate | +1% | 23 715 200 | 51 709 200 | 75 424 400 | +11% |
| | -1% | 17 834 100 | 42 126 100 | 59 960 200 | -12% |
| Discount rate | +1% | 17 315 000 | 45 482 200 | 62 797 200 | -8% |
| | -1% | 25 791 000 | 48 831 100 | 74 622 100 | +10% |
| Post-employment mortality | -1 yr | 21 559 400 | 48 626 200 | 70 185 600 | +3% |
| Average retirement age | -1 yr | 22 259 600 | 49 750 900 | 72 010 500 | +6% |
| Continuation of membership at retirement | -10% | 18 194 500 | 43 649 200 | 61 843 700 | -9% |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 9. Employee benefit obligations (continued)

**History of Liabilities, Assets and Experience Adjustments**

The table below summarises the accrued liabilities and the plan assets for the current period and previous periods.

| **Liability history** | **30/06/2015** | **30/06/2016** | **30/06/2017** | **30/06/2018** | **30/06/2019** |
|---|---|---|---|---|---|
| Accrued liability | 503.423 | 505.116 | 527.298 | 537.975 | 511.869 |
| Fair value of plan asset | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Surplus / (Deficit)** | **(503.423)** | **(505.116)** | **(527.298)** | **(538.975)** | **(512.869)** |

The table below summarises the experience adjustments for the current period and the previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

| **Experience adjustments** | **Year ending 30/06/2015** | **Year ending 30/06/2016** | **Year ending 30/06/2017** | **Year ending 30/06/2018** | **Year ending 30/06/2019** |
|---|---|---|---|---|---|
| Liabilities: (Gain) / Loss | 37.093 | (11.690) | 26.366 | (1.794) | (3.964) |
| Assets: Gain / (Loss) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |

**Long service awards amounts recognised in the statement of financial position**

| | | |
|---|---|---|
| Balance at the beginning of the year | 195 180 004 | 184 862 038 |
| Interest cost | 15 552 333 | 14 614 931 |
| Current service cost | 20 377 027 | 20 353 828 |
| Actual employer benefit payments | (25 020 537) | (22 569 396) |
| Actuarial gain recognised in the year | 10 857 685 | (2 081 397) |
| | **216 946 512** | **195 180 004** |

**Long service awards - Net cost**

| | | |
|---|---|---|
| Interest costs | 15 552 333 | 14 614 931 |
| Current service cost | 20 377 027 | 20 353 828 |
| Actuarial (gains)/losses recognised in the year | 10 857 685 | (2 081 397) |
| Employer benefits vesting | (25 020 537) | (22 569 396) |
| | **21 766 508** | **10 317 966** |

## 10. Inventories

| | | |
|---|---|---|
| Electricity store (Electrical maintenance parts) | 9 974 424 | 11 186 094 |
| Workshop store (Mechanical maintenance parts) | 248 446 | 454 051 |
| Water store (Water maintenance parts) | 3 219 126 | 3 399 936 |
| Unsold water (Treated water in pipelines & reservoirs) | 12 472 879 | 15 476 087 |
| General stores (Chiselhurst, Mdantsane, KWT) | 9 367 833 | 12 748 192 |
| | 35 282 708 | 43 264 360 |
| Inventories (write-downs) | 2 056 597 | (474 802) |
| | **37 339 305** | **42 789 558** |

Carrying value of stock is disclosed at the lower of cost and net realisable value.

The inventories (write-downs) amount is in respect of obsolete stock and not due to a change in accounting policy.

Inventory write-downs is included under note 41 : General Expenses - Other expenses.

**Inventory pledged as security**

No inventory was pledged as security.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 11. Receivables from exchange transactions - BCMDA

| | | |
|---|---|---|
| Deposits | 44 713 | 44 713 |
| Project management fee receivable | 302 321 | 54 821 |
| Sundry debtors | - | 2 229 |
| | **347 034** | **101 763** |

Receivables from exchange transactions is made up of R44 713 (refundable deposit paid to EL IDZ for the rental office space). Project management fees receivable of R630 837 are in relation to the implementation of the Water World and Court Crescent Projects and the DEA Waste Management Project.

Receivable control in the prior year was in relation to retention monies due to the agency. These are retentions on the GMC project that the BCMDA implemented on behalf of DEA.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 12. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Traffic fines | 38 750 259 | 27 896 195 |
| Other receivables (billing) | 187 964 156 | 160 819 057 |
| Other debtors | 7 671 753 | 7 283 283 |
| Property rates | 584 203 499 | 435 853 482 |
| Allowance for impairment property rates and other receivables billing | (443 371 621) | (402 368 696) |
| | **375 218 046** | **229 483 321** |

| **Property rates age analysis** | | |
|---|---|---|
| Current (0-30 days) | 107 643 758 | 74 517 231 |
| 31-60 days | 35 006 196 | 27 423 925 |
| 61-90 days | 22 867 998 | 13 221 235 |
| 91-120 days | 18 697 787 | 10 453 639 |
| 121- 365 days | 121 085 395 | 80 754 414 |
| >365 days | 278 902 365 | 229 483 038 |
| | **584 203 499** | **435 853 482** |

| **Other receivables (billing) age analysis** | | |
|---|---|---|
| Current (0-30 days) | 30 597 961 | 6 823 366 |
| 31-60 days | 4 381 103 | 4 511 124 |
| 61-90 days | 3 205 243 | 3 593 903 |
| 91-120 days | 3 249 982 | 3 223 118 |
| 121- 365 days | 24 284 553 | 33 498 927 |
| >365 days | 122 245 314 | 109 168 619 |
| | **187 964 156** | **160 819 057** |

| **Less: Allowance for Impairment - Property rates and other receivables** | | |
|---|---|---|
| Current (0-30 days) | (91 815 344) | (83 315 715) |
| 31-60 Days | (21 748 495) | (19 735 170) |
| 61-90 Days | (13 954 990) | (12 663 133) |
| 91-120 Days | (11 609 988) | (10 535 216) |
| 121-365 days | (74 494 235) | (67 598 075) |
| >365 days | (229 748 569) | (208 521 387) |
| | **(443 371 621)** | **(402 368 696)** |

| **Traffic Fines** | | |
|---|---|---|
| Opening Balance - Total Outstanding Fines (Based on prior 3 years) | **111 584 781** | **74 026 927** |
| Less: Outstanding Fines in respect of prior third year | (14 877 599) | (13 023 604) |
| Total Traffic Fines Issued BCMM | **90 874 420** | **68 138 450** |
| Traffic Fines withdrawn, untraceable and uncollectable | (5 376 243) | (2 520 050) |
| Traffic Fines Paid | (13 725 969) | (15 036 942) |
| Total Outstanding Fines | **168 479 390** | **111 584 781** |
| Impairment (Based on a probability collection factor of approx. 23% - 2019 and 25% - 2018) | (129 729 131) | (83 688 586) |
| **Traffic Fines Debtor** | **38 750 259** | **27 896 195** |

**Trade and other receivables from non-exchange transactions pledged as security**

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any accounts receivable.

These accounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

### 12. Receivables from non-exchange transactions (continued)

**Credit quality of receivables from non-exchange transactions**

The credit quality of trade and other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings.

Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

**Trade and other receivables from non-exchange transactions impaired**

As of 30 June 2019, other receivables from non-exchange transactions of R (443 371 621) (2018: R (402 368 696)) were impaired and provided for.

Amounts totalling R36 869 408 (2018: R45 496 454) were written off as uncollectable against the debt impairment allowance account. This represents 0.02% (2018: 0.01%) of the total operating income for the year.

**Reconciliation of allowance for impairment of trade and other receivables from non-exchange transactions**

| | | |
|---|---|---|
| Opening balance | (402 368 696) | (352 103 319) |
| Allowance for impairment | (77 872 333) | (95 761 831) |
| Amounts written off as uncollectible | 36 869 408 | 45 496 454 |
| | **(443 371 621)** | **(402 368 696)** |

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 38). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or credit enhancements.

### 13. VAT receivable

| | | |
|---|---|---|
| VAT | 171 216 361 | 110 145 810 |

The above VAT receivable amount is the net amount of total VAT input R4 741 164 456 (2018: R4 080 942 715) less total VAT output R4 570 315 076 (2018: R3 971 003 341).

The entity is registered on the payment basis. VAT is declared to SARS on receipt of payments from customers and claimed once payment is made to suppliers.

### 14. Receivables from exchange transactions

| | | |
|---|---|---|
| **Gross balances** | | |
| Electricity | 387 048 444 | 329 739 719 |
| Water | 476 770 376 | 426 515 579 |
| Sewerage | 239 428 552 | 206 774 610 |
| Refuse | 272 779 500 | 242 524 341 |
| Accrued income | 388 396 859 | 391 126 109 |
| | **1 764 423 731** | **1 596 680 358** |

| | | |
|---|---|---|
| **Less: Allowance for impairment** | | |
| Electricity | (224 907 641) | (158 580 820) |
| Water | (272 868 169) | (289 421 989) |
| Sewerage | (134 798 546) | (109 980 876) |
| Refuse | (153 575 167) | (141 515 444) |
| | **(786 149 523)** | **(699 499 129)** |

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 14. Receivables from exchange transactions (continued)

| | | |
|---|---|---|
| **Net balance** | | |
| Electricity | 162 140 803 | 171 158 899 |
| Water | 203 902 207 | 137 093 590 |
| Sewerage | 104 630 006 | 96 793 734 |
| Refuse | 119 204 333 | 101 008 897 |
| Accrued income | 388 396 859 | 391 126 109 |
| | **978 274 208** | **897 181 229** |

| | | |
|---|---|---|
| **Electricity** | | |
| Current (0 -30 days) | 200 612 062 | 207 590 024 |
| 31 - 60 days | 23 782 089 | 11 950 693 |
| 61 - 90 days | 11 802 765 | 6 437 138 |
| 91 - 120 days | 7 728 571 | 4 497 083 |
| 121 - 365 days | 47 768 515 | 27 523 077 |
| > 365 days | 95 354 442 | 71 741 704 |
| | **387 048 444** | **329 739 719** |

| | | |
|---|---|---|
| **Water** | | |
| Current (0 -30 days) | 65 194 979 | 95 286 884 |
| 31 - 60 days | 20 549 823 | 38 688 753 |
| 61 - 90 days | 15 839 497 | 29 465 456 |
| 91 - 120 days | 14 708 088 | 22 776 748 |
| 121 - 365 days | 84 474 331 | 122 579 833 |
| > 365 days | 276 003 658 | 117 717 905 |
| | **476 770 376** | **426 515 579** |

| | | |
|---|---|---|
| **Sewerage** | | |
| Current (0 -30 days) | 25 591 286 | 20 803 885 |
| 31 - 60 days | 11 425 054 | 10 095 600 |
| 61 - 90 days | 7 100 531 | 6 139 572 |
| 91 - 120 days | 5 698 915 | 4 854 509 |
| 121 - 365 days | 39 016 107 | 35 443 091 |
| > 365 days | 150 596 659 | 129 437 953 |
| | **239 428 552** | **206 774 610** |

| | | |
|---|---|---|
| **Refuse** | | |
| Current (0 -30 days) | 19 536 864 | 18 715 794 |
| 31 - 60 days | 9 962 879 | 9 890 327 |
| 61 - 90 days | 6 626 293 | 7 069 979 |
| 91 - 120 days | 6 025 949 | 5 848 789 |
| 121 - 365 days | 43 390 322 | 43 829 326 |
| > 365 days | 187 237 193 | 157 170 126 |
| | **272 779 500** | **242 524 341** |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 14. Receivables from exchange transactions (continued)

**Summary of debtors by customer classification: (This refers to the total debtor classification including exchange and non-exchange transactions as per billing system i.e. this includes rates and other billing receivables)**

| | | |
|---|---|---|
| **Consumers** | | |
| Current (0 -30 days) | 140 836 633 | 155 252 307 |
| 31 - 60 days | 67 246 059 | 72 230 183 |
| 61 - 90 days | 46 035 863 | 50 941 046 |
| 91 - 120 days | 42 395 144 | 39 214 312 |
| 121 - 365 days | 287 120 965 | 239 075 703 |
| > 365 days | 959 419 530 | 653 440 098 |
| | 1 543 054 194 | 1 210 153 649 |
| Less: Allowance for impairment | (909 845 646) | (696 253 470) |
| | **633 208 548** | **513 900 179** |

| | | |
|---|---|---|
| **Industrial/ commercial** | | |
| Current (0 -30 days) | 288 447 358 | 222 852 467 |
| 31 - 60 days | 32 149 097 | 22 444 623 |
| 61 - 90 days | 18 023 569 | 10 275 826 |
| 91 - 120 days | 13 014 398 | 7 500 303 |
| 121 - 365 days | 68 751 888 | 64 162 852 |
| > 365 days | 145 455 800 | 126 978 062 |
| | 565 842 110 | 454 214 133 |
| Less: Allowance for impairment | (319 675 498) | (250 390 512) |
| | **246 166 612** | **203 823 621** |

| | | |
|---|---|---|
| **National and provincial government** | | |
| Current (0 -30 days) | 19 892 920 | 23 582 131 |
| 31 - 60 days | 5 711 987 | 2 729 743 |
| 61 - 90 days | 3 382 896 | 520 336 |
| 91 - 120 days | 699 751 | 263 005 |
| 121 - 365 days | 4 146 371 | 3 263 338 |
| > 365 days | 5 464 301 | 14 243 475 |
| | **39 298 226** | **44 602 028** |

| | | |
|---|---|---|
| **Total** | | |
| Current (0 -30 days) | 449 176 911 | 423 737 183 |
| 31 - 60 days | 105 107 143 | 102 560 421 |
| 61 - 90 days | 67 442 327 | 65 927 282 |
| 91 - 120 days | 56 109 293 | 51 653 887 |
| 121 - 365 days | 360 019 224 | 343 628 668 |
| > 365 days | 1 110 339 631 | 814 719 346 |
| | 2 148 194 529 | 1 802 226 787 |
| Less: Allowance for impairment | (1 229 521 144) | (1 101 867 825) |
| | **918 673 385** | **700 358 962** |

| | | |
|---|---|---|
| **Less: Allowance for impairment** | | |
| Current (0 -30 days) | (254 614 642) | (228 179 632) |
| 31 - 60 days | (60 311 109) | (54 049 392) |
| 61 - 90 days | (38 698 812) | (34 680 962) |
| 91 - 120 days | (32 195 849) | (28 853 160) |
| 121 - 365 days | (206 581 191) | (185 133 186) |
| > 365 days | (637 119 542) | (570 971 493) |
| | **(1 229 521 145)** | **(1 101 867 825)** |

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 14. Receivables from exchange transactions (continued)

| | | |
|---|---|---|
| **Total debtor past due but not impaired** | | |
| Current (0 -30 days) | 87 877 561 | 63 586 194 |

**Consumer debtors pledged as security**

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any of the accounts receivable.

**Credit quality of consumer debtors**

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

**Consumer debtors impaired**

As of 30 June 2019, consumer debtors of R (786 149 523) (2018: R (699 499 129)) were impaired and provided for.

Amounts totaling R199 490 679 as of June 30, 2019 (2018: R240 827 289) were written off as uncollectable against the debt impairment allowance account. This represents 0.0331% (2018: 0.0462%) of the total operating income for the year.

**Reconciliation of allowance for impairment of consumer debtors**

| | | |
|---|---|---|
| Opening balance | (699 499 129) | (714 811 285) |
| Allowance for impairment | (286 100 354) | (225 515 133) |
| Amounts written off as uncollectible | 199 449 960 | 240 827 289 |
| | **(786 149 523)** | **(699 499 129)** |

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 38). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Refer to note 12 regarding impairment of non-exchange transactions.

In terms of the arrangements to repay rates and services debt as at 30 June 2019, 3521 (2018: 2596) debtors had active outstanding arrangements to the value of R61 326 180 (2018: R35 486 337). The repayment periods range from 1 month to a maximum of 24 months in terms of the Credit Control Policy.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 15. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 86 484 | 82 009 |
| Bank balances | 246 927 038 | 165 021 627 |
| Short-term deposits | 924 619 393 | 1 660 392 952 |
| | **1 171 632 915** | **1 825 496 588** |

| | | |
|---|---|---|
| **Allocation of external investments (call and short-term deposits)** | | |
| BCMET | 512 075 | 531 780 |
| Own funding (operating account commitments) | 924 107 318 | 1 659 861 172 |
| | **924 619 393** | **1 660 392 952** |

| | | |
|---|---|---|
| **Call and short-term deposits per institution** | | |
| Absa (interest rate range 6.3% - 6.6% : 2018 6.30% - 7.72%) | 239 825 801 | 414 689 209 |
| Nedbank (interest rate range 6.3% - 6.6% : 2018 6.30% - 7.85%) | 205 985 619 | 408 150 415 |
| RMB (interest rate range 6.3% - 6.6% : 2018 6.30% - 7.95%) | 240 877 015 | 415 168 994 |
| Standard Bank (interest rate range 6.3% - 6.6% : 2018 6.30% - 7.75%) | 152 179 540 | 295 161 008 |
| Stanlib (interest rate range 7.2% - 7.5% : 2018 7.29% - 7.55%) | 85 751 418 | 127 223 326 |
| | **924 619 393** | **1 660 392 952** |

Own funding includes the insurance and Compensation for Occupational Injuries and Diseases (COID) purposes.

No cash and cash equivalents (or portions thereof) were pledged as security for any financial liabilities.

No restrictions exist with regard to the use of cash. No portion is past due or impaired.

These amounts best represent the maximum exposure to credit rist at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

A cession by the Municipality in respect of the Department of Labour for COID amounts to R18 500 034 (2018 : R10 474 620)

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 15. Cash and cash equivalents (continued)

**The entity had the following bank accounts**

| Account number / description | Bank statement balances | | Cash book balances | |
|---|---|---|---|---|
| | 30 June 2019 | 30 June 2018 | 30 June 2019 | 30 June 2018 |
| ABSA BANK - Primary Account - 408-009-0281 | 2 571 001 | 241 424 838 | 2 522 341 | 159 594 559 |
| ABSA BANK - Prism Account - 408-009-0574 | - | - | - | 3 710 137 |
| ABSA BANK - Market Account - 408-009-0639 | - | 2 607 020 | - | 1 351 945 |
| ABSA BANK - Unpaid Account - 408-009-0697 | - | 3 106 | - | - |
| STANDARD BANK - Primary Account - 081-166-702 | 381 736 314 | - | 233 367 599 | - |
| STANDARD BANK - Market Account - 081-167-873 | 1 784 773 | - | 1 108 402 | - |
| STANDARD BANK - Prism Account - 081-167-776 | - | - | 5 943 170 | - |
| First National BANK - EC Buffalo City GMC 2015 Cheque Account - 626-1293-9267 | - | 6 293 | - | 6 293 |
| First National BANK - Public Sector Cheque Account - 620-9871-7899 | 303 231 | 335 316 | 303 231 | 335 316 |
| First National BANK - Commercial Money Market Account - 620-9871-9358 | 732 510 | 23 292 | 732 510 | 23 292 |
| First National BANK - DEA Waste Management Public Sector Cheque Account - 627-4180-3177 | 2 949 785 | 85 | 2 949 785 | 85 |
| **Total** | **390 077 614** | **244 399 950** | **246 927 038** | **165 021 627** |

## 16. Revaluation reserve

| | 2019 | 2018 |
|---|---|---|
| Opening balance | 9 046 230 471 | 6 925 099 056 |
| Change during the year | 820 768 930 | 2 121 131 415 |
| | **9 866 999 401** | **9 046 230 471** |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 17. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| **Unspent conditional grants and receipts** | | |
|---|---|---|
| National Government Grants | 6 016 308 | 43 739 712 |
| Provincial Government Grants | 7 680 686 | 14 329 878 |
| Other conditional grants | 2 187 164 | 5 140 807 |
| Administrative grant | 194 726 124 | 182 141 961 |
| | **210 610 282** | **245 352 358** |

| **National Government** | **Unspent balance 2018** | **Current years receipts / interest allocated** | **Transfer to revenue operating expenditure** | **Transfer to revenue capital expenditure** | **Transfers / Prior period error** | **Unspent balance 2019** |
|---|---|---|---|---|---|---|
| Financial Management Grant (FMG) | 1 204 | 1 150 000 | (1 086 539) | (64 892) | 405 | 178 |
| Neighbourhood Development Partnership Grant (NDPG) | - | 6 000 000 | - | (5 992 817) | - | 7 183 |
| Integrated National Electrification Programme (INEP) | 567 | 6 200 000 | - | (4 875 550) | (337 402) | 987 615 |
| Electricity Demand: Side Management Grant (EDSM) | 19 | 8 000 000 | - | (7 996 091) | (1 643) | 2 285 |
| Urban Settlement Development Grant (USDG) | 291 553 | 962 992 000 | (83 784 580) | (778 446 265) | (101 051 265) | 1 443 |
| Expanded Public Works Programme (EPWP) | 216 | 4 167 000 | (4 167 264) | - | - | (48) |
| Municipal Emergency Housing Grant (MEHG) | - | 9 043 295 | (7 853 371) | - | (895 564) | 294 360 |
| Integrated City Development Grant (ICDG) | - | 10 003 000 | - | (10 002 379) | - | 621 |
| Infrastructure Skills Development Grant (ISDG) | 1 845 208 | 10 800 000 | (9 456 700) | (15 249) | (2 070 401) | 1 102 858 |
| Public Transport Network Grant (PTNG) | 41 592 183 | 95 165 000 | (2 965 645) | (79 366 197) | (53 759 061) | 666 280 |
| DEA - GMC Grant - BCMDA | 8 848 | - | - | - | (5 263) | 3 585 |
| DEA - Waste Management Conditional grant - BCMDA | - | 5 417 769 | (2 467 821) | - | - | 2 949 948 |
| **Subtotal** | **43 739 712** | **118 938 064** | **(111 781 920)** | **(886 759 440)** | **(158 120 194)** | **6 016 308** |

| **Provincial Government** | **Unspent balance 2018** | **Current years receipts / interest allocated** | **Transfer to revenue operating expenditure** | **Transfer to revenue capital expenditure** | **Transfers / Prior period error** | **Unspent balance 2019** |
|---|---|---|---|---|---|---|
| Transitional Grant | 113 769 | - | - | - | - | 113 769 |
| King William's Town: Grants Government | 2 053 | - | - | - | - | 2 053 |
| European Commission | 1 114 528 | 74 059 | - | - | - | 1 188 587 |
| Gompo Survey (DVRI Hydroponics) | 98 532 | - | - | - | - | 98 532 |
| Rehabilitation of Stoney Drift Landfill Site (DEDEAT) | 199 168 | - | - | - | - | 199 168 |
| Gompo & Mdantsane Art Centres (DVRI Arts Centre) | 861 | - | - | - | - | 861 |
| Pilot Housing Project | 268 793 | - | - | - | - | 268 793 |
| Reeston Development - Land Affairs | 165 214 | 11 034 | - | - | - | 176 248 |
| Mdantsane Urban Renewal Project (Mount Ruth Node) | 10 856 433 | 721 337 | - | (7 455 623) | - | 4 122 147 |
| Ikhwezi Block 1 Development | 175 288 | - | - | - | - | 175 288 |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
| --- | --- | --- |

**17. Unspent conditional grants and receipts (continued)**

| | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| Mdantsane Upgrade - MD Assessment Study | 189 165 | - | - | - | - | 189 165 |
| Needscamp Planning | 937 253 | - | - | - | - | 937 253 |
| Department of Sports, Recreation, Arts and Culture (DSRAC) | 208 821 | - | - | - | - | 208 821 |
| **Subtotal** | **14 329 878** | **806 430** | **-** | **(7 455 623)** | **-** | **7 680 685** |

| **Other conditional grants** | **Unspent balance 2018** | **Current years receipts / interest allocated** | **Transfer to revenue operating expenditure** | **Transfer to revenue capital expenditure** | **Transfers / Prior period error** | **Unspent balance 2019** |
| --- | --- | --- | --- | --- | --- | --- |
| Amatole District Municipality Funding (ADM) | 1 673 270 | - | - | - | (1 673 270) | - |
| Buffalo City Metro Transport (BCMET) Funding | 487 499 | - | - | - | - | 487 499 |
| VUNA Award | 1 040 066 | - | - | - | (1 040 066) | - |
| Friends of East London Zoo (Felzoo) | 248 025 | - | - | - | - | 248 025 |
| SALAIDA (Gavle) | 1 051 684 | 122 622 | (410 411) | - | - | 763 895 |
| Leiden | 74 274 | 5 218 | - | - | - | 79 492 |
| Umsobomvu Youth Fund | 241 844 | 18 842 | - | - | - | 260 686 |
| City of Oldenburg | 324 143 | 23 424 | - | - | - | 347 567 |
| **Subtotal** | **5 140 805** | **170 106** | **(410 411)** | **-** | **(2 713 336)** | **2 187 164** |

| **Administrative grant** | **Unspent balance 2018** | **Current years receipts / interest allocated** | **Transfer to revenue operating expenditure** | **Transfer to revenue capital expenditure** | **Transfers / Prior period error** | **Unspent balance 2019** |
| --- | --- | --- | --- | --- | --- | --- |
| Land Affairs - West Bank | 97 766 810 | 6 976 416 | - | - | - | 104 743 226 |
| Land Affairs - East Bank | 84 375 152 | 5 607 744 | - | - | - | 89 982 896 |
| **Subtotal** | **182 141 962** | **12 584 160** | **-** | **-** | **-** | **194 726 122** |

| **National Government (2018)** | **Unspent balance 2017** | **Current years receipts / interest allocated** | **Transfer to revenue operating expenditure** | **Transfer to revenue capital expenditure** | **Transfers / Prior period error** | **Unspent balance 2018** |
| --- | --- | --- | --- | --- | --- | --- |
| Financial Management Grant (FMG) | 771 | 1 300 000 | (1 299 567) | - | - | 1 204 |
| Integrated National Electrification Programme (INEP) | 25 470 812 | 7 300 000 | - | (19 444 295) | (13 325 949) | 568 |
| Electricity Demand: Side Management Grant (EDSM) | - | 5 000 000 | - | (4 999 982) | - | 18 |
| Urban Settlement Development Grant (USDG) | 195 | 928 128 000 | (65 131 354) | (765 810 138) | (96 895 150) | 291 553 |
| Expanded Public Works Programme (EPWP) | 139 | 4 952 000 | (4 916 940) | - | (34 982) | 217 |
| Integrated City Development Grant (ICDG) | 116 650 | 6 956 000 | - | (6 956 000) | (116 650) | - |
| Infrastructure Skills Development Grant (ISDG) | 2 013 060 | 10 560 000 | (8 586 659) | - | (2 141 193) | 1 845 208 |
| Public Transport Network Grant (PTNG) | 33 136 686 | 55 868 000 | (4 593 997) | (36 991 983) | (5 826 523) | 41 592 183 |
| DEA - GMC Grant - BCMDA | 1 489 147 | 24 848 | (1 505 147) | - | - | 8 848 |
| Subtotal | 62 227 460 | 020 088 848 | (86 033 664) | (834 202 398) | (118 340 447) | 43 739 799 |

### 17. Unspent conditional grants and receipts (continued)

| Provincial Government (2018) | Unspent balance 2017 | Current years receipts / interest allocated | Transfer to revenue operating expenditure | Transfer to revenue capital expenditure | Transfers / Prior period error | Unspent balance 2018 |
|---|---|---|---|---|---|---|
| Transitional Grant | 113 769 | - | - | - | - | 113 769 |
| King William's Town: Grants Government | 2 053 | - | - | - | - | 2 053 |
| European Commission | 1 044 957 | 69 571 | - | - | - | 1 114 528 |
| Gompo Survey (DVRI Hydroponics) | 98 532 | - | - | - | - | 98 532 |
| Human Settlement Development Grant (HSDG) | - | 109 905 110 | (71 002 960) | - | - | 38 902 150 |
| Rehabilitation of Stoney Drift Landfill Site (DEDEAT) | 199 168 | - | - | - | - | 199 168 |
| Gompo & Mdantsane Art Centres (DVRI Arts Centre) | 861 | - | - | - | - | 861 |
| Pilot Housing Project | 268 793 | - | - | - | - | 268 793 |
| Reeston Development - Land Affairs | 140 029 | 25 185 | - | - | - | 165 214 |
| Mdantsane Urban Renewal Project (Mount Ruth Node) | 10 226 501 | 629 932 | - | - | - | 10 856 433 |
| Ikhwezi Block 1 Development | 175 288 | - | - | - | - | 175 288 |
| Mdantsane Upgrade - MD Assessment Study | 189 165 | - | - | - | - | 189 165 |
| Needscamp Planning | 937 253 | - | - | - | - | 937 253 |
| Department of Sports, Recreation, Arts and Culture (DSRAC) | 208 821 | - | - | - | - | 208 821 |
| Subtotal | 13 605 190 | 110 629 798 | (71 002 960) | - | - | 53 232 028 |

| Other conditional grants | Unspent balance 2017 | Current years receipts / interest allocated | Transfer to revenue operating expenditure | Transfer to revenue capital expenditure | Transfers / Prior period error | Unspent balance 2018 |
|---|---|---|---|---|---|---|
| Amatole District Municipality Funding (ADM) | 1 673 270 | - | - | - | - | 1 673 270 |
| Buffalo City Metro Transport (BCMET) Funding | 487 499 | - | - | - | - | 487 499 |
| VUNA Award | 1 040 066 | - | - | - | - | 1 040 066 |
| Friends of East London Zoo (Felzoo) | 248 025 | - | - | - | - | 248 025 |
| SALAIDA (Gavle) | 1 750 800 | 169 352 | (639 468) | (229 000) | - | 1 051 684 |
| Leiden | 143 033 | 8 711 | (77 470) | - | - | 74 274 |
| Umsobomvu Youth Fund | 224 074 | 17 770 | - | - | - | 241 844 |
| Glasgow Partnership | 89 858 | - | (89 858) | - | - | - |
| City of Oldenburg | 540 950 | 36 168 | (252 975) | - | - | 324 143 |
| Subtotal | 6 197 575 | 232 001 | (1 059 771) | (229 000) | - | 5 140 805 |

| Administrative grant | Unspent balance 2017 | Current years receipts / interest allocated | Transfer to revenue operating expenditure | Transfer to revenue capital expenditure | Transfers / Prior period error | Unspent balance 2018 |
|---|---|---|---|---|---|---|
| Land Affairs - West Bank | 91 204 869 | 6 561 941 | - | - | - | 97 766 810 |
| Land Affairs - East Bank | 79 084 327 | 5 290 825 | - | - | - | 84 375 152 |
| Subtotal | 170 289 196 | 11 852 766 | - | - | - | 182 141 962 |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 18. Borrowings

| | | |
|---|---|---|
| **At amortised cost** | | |
| Annuity loans | 345 554 088 | 398 126 111 |
| | | |
| **Non-current liabilities** | | |
| At amortised cost | 287 580 532 | 345 554 088 |
| | | |
| **Current liabilities** | | |
| At amortised cost | 57 973 556 | 52 572 023 |

The entity did not default on any of the borrowings in respect of capital or interest portions.

No terms attached to the borrowings were re-negotiated.

Average interest rate is 9.74%

### 19. Provisions

**Reconciliation of provisions - 2019**

| | Opening Balance | Additions | Utilised during the year | Reversed during the year | Total |
|---|---|---|---|---|---|
| Provision - Website and mailbox services | 24 381 | - | - | (24 381) | - |
| Landfill Sites | 211 366 794 | 699 481 | - | - | 212 066 275 |
| Bonus provision | 40 567 610 | 5 349 580 | (824 441) | - | 45 092 749 |
| | **251 958 785** | **6 049 061** | **(824 441)** | **(24 381)** | **257 159 024** |

**Reconciliation of provisions - 2018**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Provision - Website and mailbox services | - | 24 381 | 24 381 |
| Landfill Sites | 176 492 077 | 34 874 717 | 211 366 794 |
| Bonus provision | 35 846 211 | 4 721 399 | 40 567 610 |
| | **212 338 288** | **39 620 497** | **251 958 785** |

| | 2019 | 2018 |
|---|---|---|
| Non-current liabilities | 11 158 873 | 10 459 392 |
| Current liabilities | 246 000 151 | 241 499 393 |
| | **257 159 024** | **251 958 785** |

With regards to the Provision for Landfill sites it is stated in the Department of Water Affairs and Forestry "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4, that "All landfills except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be considered closed. Closure will involve, inter alia, the application of final cover, topsoil, vegetating, drainage maintenance and leachate management." Rehabilitation costs in respect of geohydrological monitoring is anticipated to be a recurring cost for the next 30 years. The future value of the rehabilitation of landfill sites obligation was calculated by inflating the non-current rehabilitation cost to an estimated future cost which was then discounted to present value.

Assumptions used:

- Interest rate used is BCMM's borrowing rate at 9.74% (2018: 9.91%).

- The valuation for the landfill site provision in 2019 was done by Munitech (Pty) Ltd, a company which specialises in infrastructure maintenance and operations and municipal services, which includes solid waste collection and disposal. The company registration number is 1988/761/07 and the SAACE membership number is 439.

The expense relating to the provision is included under note 41: General Expenses - Other expenses.

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 20. Financial assets by category

| 2019 | | Financial assets at amortised cost | Total |
|---|---|---|---|
| Trade and other receivables from exchange transactions | 14 | 978 274 208 | 978 274 208 |
| Other receivables from non-exchange transactions | 12 | 375 218 046 | 375 218 046 |
| Cash and cash equivalents | 15 | 1 171 632 915 | 1 171 632 915 |
| | | **2 525 125 169** | **2 525 125 169** |

| 2018 | | Financial assets at amortised cost | Total |
|---|---|---|---|
| Trade and other receivables from exchange transactions | 14 | 897 181 229 | 897 181 229 |
| Other receivables from non-exchange transactions | 12 | 229 483 321 | 229 483 321 |
| Cash and cash equivalents | 15 | 1 825 496 588 | 1 825 496 588 |
| | | **2 952 161 138** | **2 952 161 138** |

Refer to note 52 - Risk management

### 21. Financial liability by category

| 2019 | | Financial liabilities at amortised cost | Measured at fair value | Total |
|---|---|---|---|---|
| Accrued leave pay | 22 | 93 397 746 | - | 93 397 746 |
| Payments received in advance | 22 | 136 456 462 | - | 136 456 462 |
| Borrowings: Other financial liabilities | 18 | 345 554 088 | - | 345 554 088 |
| Trade and other payables | 22 | 798 232 534 | - | 798 232 534 |
| Consumer deposits | 23 | - | 64 109 019 | 64 109 019 |
| Other deposits | 22 | - | 7 376 353 | 7 376 353 |
| Unspent conditional grants | 17 | 210 610 282 | - | 210 610 282 |
| | | **1 584 251 112** | **71 485 372** | **1 655 736 484** |

| 2018 | | Financial liabilities at amortised cost | Measured at fair value | Total |
|---|---|---|---|---|
| Accrued leave pay | 22 | 77 722 616 | - | 77 722 616 |
| Payments received in advance | 22 | 131 369 432 | - | 131 369 432 |
| Borrowings: Other financial liabilities | 18 | 398 126 111 | - | 398 126 111 |
| Trade and other payables | 22 | 852 502 409 | - | 852 502 409 |
| Consumer deposits | 23 | - | 60 012 613 | 60 012 613 |
| Other deposits | 22 | - | 6 882 738 | 6 882 738 |
| Unspent conditional grants | 17 | 245 352 358 | - | 245 352 358 |
| | | **1 705 072 926** | **66 895 351** | **1 771 968 277** |

Refer to note 52 - Risk management

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 22. Trade payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 658 157 379 | 678 604 509 |
| Payments received in advanced | 136 456 462 | 131 369 432 |
| Retention monies | 107 007 205 | 94 711 079 |
| Accrued leave pay | 93 397 746 | 77 722 616 |
| Deposits received | 7 376 353 | 6 882 738 |
| Other creditors | 33 067 950 | 79 186 821 |
| | **1 035 463 095** | **1 068 477 195** |

## 23. Consumer deposits

| | | |
|---|---|---|
| Electricity | 38 768 862 | 36 285 976 |
| Water | 25 340 157 | 23 726 637 |
| | **64 109 019** | **60 012 613** |

The amounts reflected represent a cost value which is viewed to be the approximate fair value.

The consumer deposits are reflected at nominal value as they are utilised as part of the settlement of final consumer accounts.

Guarantees held in lieu of Electricity and Water deposits amounted to R20 851 479 (2018: R19 626 779).

## 24. Revenue

| | | |
|---|---|---|
| Service charges | 2 820 302 005 | 2 589 562 060 |
| Rental of facilities and equipment | 20 704 443 | 15 882 120 |
| Licences and permits | 14 300 355 | 14 249 685 |
| Fees earned | 215 217 | 123 740 |
| Total other revenue | 162 106 701 | 155 352 131 |
| Interest received - investment | 165 783 829 | 176 012 022 |
| Property rates | 1 294 948 221 | 973 025 312 |
| Government grants & subsidies | 1 918 941 337 | 1 748 157 009 |
| Levies | 58 289 294 | 57 512 912 |
| Public contributions and donations - PPE | 279 066 643 | 3 393 726 |
| Fines | 24 938 282 | 23 698 183 |
| Fuel levy | 513 844 000 | 467 978 000 |
| | **7 273 440 327** | **6 224 946 900** |

| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
|---|---|---|
| Service charges | 2 820 302 005 | 2 589 562 060 |
| Rental of facilities and equipment | 20 704 443 | 15 882 120 |
| Fees earned | 215 217 | 123 740 |
| Total other revenue | 162 106 701 | 155 352 131 |
| Interest received | 165 783 829 | 176 012 022 |
| | **3 169 112 195** | **2 936 932 073** |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 24. Revenue (continued)

| | | |
|---|---|---|
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| **Taxation revenue** | | |
| Property rates | 1 294 948 221 | 973 025 312 |
| Licences or permits | 14 300 355 | 14 249 685 |
| **Transfer revenue** | | |
| Government grants & subsidies | 1 918 941 337 | 1 748 157 009 |
| Levies | 58 289 294 | 57 512 912 |
| Donations received | 279 066 643 | 3 393 726 |
| Fines | 24 938 282 | 23 698 183 |
| Fuel levy | 513 844 000 | 467 978 000 |
| | **4 104 328 132** | **3 288 014 827** |

| | | |
|---|---|---|
| **Traffic fines are made up as follows:** | | |
| Traffic fines movement | 10 854 065 | 8 649 194 |
| Revenue received | 14 084 217 | 15 036 942 |
| **Revenue raised** | **24 938 282** | **23 686 136** |

Total fines outstanding at 30 June 2019 is R168 479 390 (R111 584 781 : 2018) after eliminating untraceable and collected fines. A probability factor of 23% (25% : 2018) collection of total outstanding fines was calculated which amounted to R38 750 259 (R27 896 195 : 2018). Refer to note 12.

The lifespan of traffic fines is as follows:

- Traffic offences in respect of which the admission of guilt amount is below R500: one year from date of issue of the warrant.
- Traffic offences in respect of which the admission of guilt amount is from R500 up to the maximum amount that may be determined by a peace officer in terms of section 56(1) of Act 51 of 1977: two years from the date of issue of the warrant.

The above arrangement also applies in traffic cases where a notice in terms of section 341 of Act 51 1977 is followed up by a summons setting admission of guilt up to the above maximum amount.

## 25. Service charges

| | | |
|---|---|---|
| Sale of electricity | 1 716 079 715 | 1 651 379 356 |
| Sale of water | 495 951 112 | 361 971 467 |
| Sewerage and sanitation charges | 328 752 621 | 304 784 783 |
| Refuse removal | 251 830 194 | 245 180 658 |
| Other service charges | 27 688 363 | 26 245 796 |
| | **2 820 302 005** | **2 589 562 060** |

## 26. Rental of facilities and equipment

| | | |
|---|---|---|
| **Facilities and equipment** | | |
| Rental of facilities | 20 704 443 | 15 882 120 |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 27. Other revenue - (exchange)

| | | |
|---|---|---|
| Grazing fees | 96 920 | 57 633 |
| Fire brigade | 137 977 | 45 458 |
| Vehicle registrations | 26 205 210 | 25 689 629 |
| Street frontage and administration fees | 339 828 | 210 735 |
| Town planning and sub-division fees | 3 933 225 | 3 723 989 |
| Commission | 25 089 482 | 23 276 472 |
| Private works | 3 389 470 | 3 757 440 |
| Tender receipts | 874 463 | 960 062 |
| Sale of property | 7 011 360 | 4 185 598 |
| Coupons and clip tickets | 425 111 | 563 412 |
| Plan approval fees | 18 635 333 | 13 070 859 |
| Sale of scrap waste | 2 889 075 | 2 956 040 |
| Cold storage fees | 1 800 529 | 1 089 303 |
| Hire charges | 10 659 | 24 128 |
| Photocopies | 53 132 | 114 632 |
| Library | 90 | 170 432 |
| Insurance | 1 828 065 | 3 835 212 |
| Sale of plants and animals | 9 940 | 9 213 |
| Admission fees | 2 658 647 | 2 863 818 |
| Service connections and reconnections | 43 987 565 | 45 415 264 |
| Sundry income | 15 335 932 | 13 010 821 |
| Cemetery fees | 7 394 688 | 10 321 981 |
| | **162 106 701** | **155 352 131** |

## 28. Interest received

| | | |
|---|---|---|
| **Interest revenue** | | |
| Call accounts with financial institutions | 75 713 495 | 108 729 758 |
| Bank | 22 976 929 | 17 960 654 |
| Interest charged on trade and other receivables | 67 093 405 | 49 321 610 |
| | **165 783 829** | **176 012 022** |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 29. Property rates

**Rates received**

| | | |
|---|---|---|
| Residential | 550 539 241 | 475 824 233 |
| Commercial | 599 781 138 | 465 690 681 |
| Industrial | 113 819 480 | - |
| Public Benefit Organisation | - | 54 595 |
| Educational | 15 472 468 | 12 506 855 |
| Agricultural | 5 165 629 | 7 057 050 |
| Public Service Infrastructure | 773 056 | 1 178 488 |
| Vacant land | 50 641 035 | 43 802 504 |
| Less: Income forgone | (41 243 826) | (33 089 094) |
| | **1 294 948 221** | **973 025 312** |

**Valuations**

| | | |
|---|---|---|
| Residential | 62 142 944 000 | 47 944 269 949 |
| Commercial | 24 835 478 000 | 17 684 155 647 |
| Industrial | 4 319 155 000 | - |
| Public Benefit Organisation | - | 81 658 000 |
| Educational | 2 537 637 000 | 1 681 587 000 |
| Agricultural | 3 140 757 000 | 2 828 176 840 |
| Public Service Infrastructure | 282 700 500 | 354 417 000 |
| Vacant Land | 2 988 186 000 | 1 087 914 730 |
| Rural Communal Land | - | 3 552 303 000 |
| | **100 246 857 500** | **75 214 482 166** |

The following property categories no longer exist with effect from 1 July 2018 in terms of the Buffalo City Metropolitan Municipality's Rates Policy and the Valuation Roll, hence they reflect zero values for 2019:
- Public Benefit Organisations
- Rural Communal Land and Special

A new property category i.e. Industrial, was created with effect from 1 July 2018 in terms of BCMM's Rates Policy, hence the zero value for 2018.

The Buffalo City Metropolitan Municipality is requierd in tems of the Municipal Property Rates Act, Act 6 of 2004 (MPRA) to undertake a General Valuation on land and buildings every 4 years and a supplementary valuation at least once a year. The third general valuation in terms of the MPRA was done in 2017 and the implementation date was 1 July 2018. The valuation date was 1 Juy 2017.

Rates are levied on a monthly basis (the due date for monthly accounts is the 15th of every month). Consumers must apply if they want to pay annually with the final date for payment for annual accounts being 30 September each year. Interest at a standard rate (as amended from time to time), is levied on rates outstanding after 30 September, except where the owner is paying in installments.

**Tarifffs levied: cents in the rand**

| | | |
|---|---|---|
| Residential | 0.010660 | 0.010660 |
| Commercial | 0.026649 | 0.026649 |
| Industrial | 0.026649 | - |
| Public Benefit Organisation | - | 0.002665 |
| Educational | 0.007462 | 0.007462 |
| Agricultural | 0.002665 | 0.002665 |
| Public Service Infrastructure | 0.002665 | 0.002665 |
| Vacant land | 0.031979 | 0.031979 |

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

**29. Property rates (continued)**

**Municipal properties**

Buffalo City Metropolitan Municipality grants rebates in terms of the Municipality's rates policy to the following categories of property or owners:

1) Newly developed commercial/ industrial properties with a value of R50 000 000 and above.

The rebate will be phased in over a period of 5 years, from the effective date of the valuation of the improved property in the municipality's valuation roll as follows:

Year 1 – 50%
Year 2 – 40%
Year 3 – 30%
Year 4 – 20%
Year 5 – 10%, thereafter full rates are payable.

2) A discretionary rebate/discount of up to 75%, where the Municipality does not supply some or all of the following services:

| | | |
|---|---|---|
| Constructed public roads | 15% | 15% |
| Water supply | 22.5% | 22.5% |
| Refuse removal service | 7.5% | 7.5% |
| Electricity supply | 15% | 15% |
| Sewerage service | 15% | 15% |
| | **75%** | **75%** |

3) Senior citizens who are 60 years and above qualify for up to 100% depending on their income level allocated as follows:

| Gross monthly income (Rand) | Rebate |
|---|---|
| 0 - 3500 | 100% |
| 3501 - 5000 | 85% |
| 5001 - 6500 | 70% |
| 6501 - 8000 | 55% |
| 8001 - 9500 | 40% |
| 9501 - 10500 | 25% |
| 10501 - 12000 | 20% |
| 12001 - 13500 | 15% |
| 13501 - 15000 | 10% |

4) On application, Public Benefit Organisations (PBO's) as defined in the Municipal Property Rates Act and BCMM's Rates Policy are granted rebates.

5) Section 17 of the MPRA lists other impermissible rates, where a entity may not levy a rate and the following were applied in the 2018/19 finanicial year:

Section 17(1)(a) - First 30% of the market value of public service infrastructure.
Section 17(1)(h) - First R15 000 of the market value of a property categorised as residential.
Section 17(1)(i) - On a property registered in the name of and used primarily as a place of public worship by a religious community, including an official residence registered in the name of that community which is occupied by an office bearer of that community.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 30. Grants and subsidies paid

| | | |
|---|---|---|
| Mayoral Social Responsibility | 670 221 | 949 663 |
| Sponsored Events | 27 847 411 | 28 281 696 |
| Social Welfare Grant (Poor relief) | 15 910 605 | 8 530 024 |
| Other Organisations | 2 765 000 | 1 568 872 |
| | **47 193 237** | **39 330 255** |

## 31. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Government grants - operating projects | 111 705 546 | 92 672 155 |
| Other Government grants and subsidies | 798 242 016 | 723 392 164 |
| Government grants - housing projects | 8 748 934 | - |
| LG SETA grant - BCMDA | 22 843 | - |
| GMC Conditional grant - BCMDA | - | 1 505 147 |
| DEA - Waste Management Conditional grant - BCMDA | 2 467 821 | - |
| | **921 187 160** | **817 569 466** |
| **Capital grants** | | |
| Government grant (capital: PPE) | 997 754 177 | 930 587 543 |
| | **1 918 941 337** | **1 748 157 009** |

## 32. Other revenue - (non-exchange)

| | | |
|---|---|---|
| Dog tax and penalties | 949 641 | 785 765 |
| Fire levy | 57 339 653 | 56 727 147 |
| | **58 289 294** | **57 512 912** |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 33. Employee related costs

| | | |
|---|---|---|
| Basic emoluments | 1 259 384 093 | 1 116 971 309 |
| Bonus | 552 367 | 446 841 |
| Medical aid contributions | 91 069 604 | 84 980 056 |
| UIF | 9 696 541 | 9 623 940 |
| Workmen's compensation fund | 158 531 | 43 347 |
| SDL | 147 098 | 124 451 |
| Leave pay contributions (Leave pay provision charge) | 48 698 204 | 28 192 586 |
| Pension fund contributions | 215 694 758 | 196 840 509 |
| Overtime payments | 136 607 351 | 148 874 886 |
| Long-service awards | 24 955 404 | 22 535 285 |
| 13th Cheques | 92 959 622 | 81 046 157 |
| Car allowance | 31 252 525 | 28 328 123 |
| Housing benefits and allowances | 7 093 722 | 7 606 822 |
| Essential user cost | 27 288 015 | 26 137 261 |
| Group life | 7 232 945 | 7 002 118 |
| Other allowances | 64 435 757 | 59 429 681 |
| Employee benefit obligation net cost | 14 967 159 | 42 625 414 |
| | **2 032 193 696** | **1 860 808 786** |

Other allowances include senior manager allowance packages, acting scarcity, standby, cellphone and accomodation / incidental allowances.

Essential user allowances are paid to employees who use their private vehicles for municipal business.

**Remuneration of City Manager**

| | | |
|---|---|---|
| Annual Remuneration | 1 407 132 | 1 324 609 |
| Travel Allowance | 312 000 | 312 000 |
| Allowance | 332 079 | 296 858 |
| UIF | 1 785 | 1 785 |
| Medical Aid | 27 205 | 26 431 |
| Pension Contributions | 265 019 | 263 384 |
| | **2 345 220** | **2 225 067** |

**Remuneration of Chief Financial Officer**

| | | |
|---|---|---|
| Annual Remuneration | 735 924 | 1 067 628 |
| Travel Allowance | 192 000 | 288 000 |
| Allowance | 109 632 | 146 482 |
| UIF | 1 190 | 1 785 |
| Medical Aid | 33 745 | 47 307 |
| Pension Contributions | 144 898 | 208 187 |
| Group Life | 13 913 | 19 990 |
| | **1 231 302** | **1 779 379** |

The position became vacant on 01 March 2019. If the position was filled for the entire financial year the remuneration would have amounted to R1 857 672. Acting allowance to the value of R61 961 was paid in the 2018/19 financial year in respect of the vacant Chief Financial Officer post.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 33. Employee related costs (continued)

**Remuneration of HOD: Executive Support Services**

| | | |
|---|---|---|
| Annual Remuneration | 1 120 915 | 1 063 487 |
| Travel Allowance | 242 766 | 242 766 |
| Allowance | 268 720 | 234 514 |
| UIF | 1 785 | 1 785 |
| Medical Aid | 25 063 | 24 337 |
| Pension Contributions | 194 873 | 191 946 |
| Group Life | 14 070 | 13 644 |
| | **1 868 192** | **1 772 479** |

**Remuneration of HOD: Human Settlements**

| | | |
|---|---|---|
| Annual Remuneration | 968 165 | 227 241 |
| Travel Allowance | 286 475 | 70 448 |
| Allowance | 107 510 | 21 743 |
| UIF | 1 785 | 446 |
| Medical Aid | 49 807 | 11 309 |
| Pension Contributions | 166 559 | 40 903 |
| Group Life | 16 447 | 4 255 |
| Housing Subsidy | - | 2 390 |
| | **1 596 748** | **378 735** |

The position was filled on 1 April 2018. If the position was filled for the entire financial year the remuneration would have amounted to R1 514 940. Acting allowance to the value of R114 633 was paid in the 2017/18 financial year in respect of the vacant HOD: Human Settlements position.

**Remuneration of HOD: Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | 1 120 915 | 1 063 487 |
| Travel Allowance | 240 000 | 240 000 |
| Allowance | 250 423 | 216 699 |
| UIF | 1 785 | 1 785 |
| Medical Aid | 43 956 | 43 127 |
| Pension Contributions | 211 113 | 207 380 |
| | **1 868 192** | **1 772 478** |

**Remuneration HOD: Health and Public Safety**

| | | |
|---|---|---|
| Annual Remuneration | 958 048 | 387 572 |
| Allowance | 456 476 | 171 641 |
| UIF | 1 785 | 744 |
| Pension Contributions | 180 438 | 71 268 |
| | **1 596 747** | **631 225** |

The position was filled on 1 February 2018. If the position was filled for the entire financial year the remuneration would have amounted to R1 514 940. Acting allowance to the value of R44 903 was paid in the 2017/18 financial year in respect of the vacant HOD: Health and Public Safety position.

## Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 33. Employee related costs (continued)

**Remuneration of HOD: Infrastructure Services**

| | | |
|---|---|---|
| Annual Remuneration | 1 120 915 | 1 063 487 |
| Travel Allowance | 168 000 | 168 000 |
| Allowance | 327 831 | 295 195 |
| UIF | 1 785 | 1 785 |
| Medical Aid | 24 556 | 22 988 |
| Pension Contributions | 211 113 | 207 380 |
| Group Life | 13 993 | 13 644 |
| | **1 868 193** | **1 772 479** |

**Remuneration of HOD: Development and Spatial Planning**

| | | |
|---|---|---|
| Annual Remuneration | 1 120 915 | 1 063 487 |
| Travel Allowance | 192 000 | 192 000 |
| Allowance | 308 316 | 271 887 |
| UIF | 1 785 | 1 785 |
| Medical Aid | 24 556 | 26 843 |
| Pension Contributions | 211 113 | 207 380 |
| Group Life | 9 508 | 9 097 |
| | **1 868 193** | **1 772 479** |

**Remuneration of HOD: Economic Development & Agencies**

| | | |
|---|---|---|
| Annual Remuneration | 958 048 | 467 921 |
| Travel Allowance | 285 643 | 133 429 |
| Allowance | 351 271 | 152 227 |
| UIF | 1 785 | 892 |
| | **1 596 747** | **754 469** |

The position was filled on 1 January 2018. If the position was filled for the entire financial year the remuneration would have amounted to R1 514 940.

**Remuneration of HOD: Municipal Services**

The position was vacant for 2018/19. If the position was filled for the entire financial year the remuneration would have amounted to R1 596 747. Acting allowance to the value of R173 792 was paid in the 2018/19 financial year in respect of the vacant HOD: Municipal Services post.

The position was vacant for 2017/18. If the position was filled for the entire financial year the remuneration would have amounted to R1 514 940. Acting allowance to the value of R133 914 was paid in the 2017/18 financial year in respect of the vacant HOD: Municipal Services post.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 33. Employee related costs (continued)

**BCMDA - Remuneration of Chief Executive Officer - Appointed 01 October 2017**

| | | |
|---|---|---|
| Annual Remuneration | 2 051 937 | 1 429 797 |
| Performance Bonuses | 168 300 | 110 250 |
| Contributions to UIF, Medical and Pension Funds | 196 847 | 146 542 |
| | **2 417 084** | **1 686 589** |

**BCMDA - Remuneration of Chief Executive Officer - Appointed 30 April 2016 - 30 September 2017**

| | | |
|---|---|---|
| Annual Remuneration | - | 393 257 |
| Car Allowance | - | 60 000 |
| Contributions to UIF, Medical and Pension Funds | - | 45 273 |
| Ex-Gratia payment | - | 72 000 |
| | **-** | **570 530** |

Included in the above disclosure of Remuneration of Chief Executive Officer, is the remuneration of the previous CEO, who resigned from the organisation in the 2017/18 financial year. This disclosure is required to ensure that the comparatives in these financial statements reconcile with the amounts that were audited in the previous financial year.

**BCMDA - Remuneration of Chief Financial Officer - Appointed 20 April 2016**

| | | |
|---|---|---|
| Annual Remuneration | 1 337 291 | 1 094 889 |
| Car Allowance | 14 000 | 168 000 |
| Performance Bonuses | 111 222 | 97 145 |
| Contributions to UIF, Medical and Pension Funds | 135 429 | 126 686 |
| | **1 597 942** | **1 486 720** |

**BCMDA - Remuneration of Company Secretary/Legal Advisor - Appointed July 2018**

| | | |
|---|---|---|
| Annual Remuneration | 876 783 | 713 025 |
| Performance Bonuses | 72 166 | - |
| Contributions to UIF, Medical and Pension Funds | 88 499 | 78 127 |
| | **1 037 448** | **791 152** |

**BCMDA - Remuneration of Corporate and human resources (corporate services) - Appointed 01 June 2016**

| | | |
|---|---|---|
| Annual Remuneration | 1 158 004 | 1 082 247 |
| Performance Bonuses | 95 313 | 83 250 |
| Contributions to UIF, Medical and Pension Funds | 116 313 | 108 820 |
| | **1 369 630** | **1 274 317** |

**BCMDA - Remuneration of Development facilitation - Appointed 01 July 2016**

| | | |
|---|---|---|
| Annual Remuneration | 1 209 535 | 1 130 406 |
| Performance Bonuses | 99 554 | 86 954 |
| Contributions to UIF, Medical and Pension Funds | 121 409 | 113 583 |
| | **1 430 498** | **1 330 943** |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | | 2019 | 2018 Restated* |
|---|---|---|---|

## 34. Remuneration of councillors

| | | |
|---|---|---|
| Executive Mayor | 810 150 | 789 100 |
| Deputy Executive Mayor | 654 293 | 637 293 |
| Mayoral Committee Members | 5 649 727 | 5 828 524 |
| Speaker | 654 293 | 637 293 |
| Chief Whip | 616 334 | 601 134 |
| Councillors salaries | 26 851 580 | 25 343 192 |
| Councillors' pension contribution | 4 265 267 | 4 135 819 |
| Councillors housing subsidy | 2 360 870 | 2 260 632 |
| Councillors medical aid | 2 270 435 | 2 070 347 |
| Travel allowance | 13 873 281 | 13 122 948 |
| Cellphone Allowance | 4 309 289 | 4 046 739 |
| BCMDA - Board members | 750 467 | 899 711 |
| | **63 065 986** | **60 372 732** |

**In-kind benefits**

The Executive Mayor, Deputy Executive Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. Cost of secretarial support amounts to R20 931 379 (2018: R18 867 918.

The House Keeper appointed to maintain the Mayoral house cost to Council amounts to R268 991 (2018: R300 872).

The Executive Mayor, Deputy Executive Mayor and Speaker each have the use of a Council owned vehicle for official duties. Repairs to the vehicles amounts to R189 917 (2018: R386 444). An amount of R1 097 339 (2018: R892 225) was incurred for hired vehicles.

The Executive Mayor, Deputy Executive Mayor and Speaker each have full-time bodyguards. Cost of 14 bodyguards amounts to R9 491 354 (2018: R10 221 059).

## 35. Contracted services

| | | |
|---|---|---|
| Infromation Technology Services | 445 984 | 330 883 |
| Operating Leases | 606 855 | 552 301 |
| Specialist Services | 307 668 | 450 540 |
| Other Contractors | 4 320 441 | 1 873 703 |
| Business and Advisory | 423 522 | - |
| Legal Cost | 22 500 | - |
| | **6 126 970** | **3 207 427** |

## 36. Depreciation and amortisation

| | | | |
|---|---|---|---|
| Property, plant and equipment | 4 | 1 293 905 026 | 1 008 729 207 |
| Intangible assets - amortisation | 5 | 6 120 231 | 8 296 429 |
| | | **1 300 025 257** | **1 017 025 636** |

## 37. Finance costs

| | | |
|---|---|---|
| Non-current borrowings | 38 466 994 | 43 935 228 |
| Bank | 7 | 5 012 |
| Other interest paid (Arrears salaries) | - | 19 552 |
| | **38 467 001** | **43 959 792** |

| Figures in Rand | | 2019 | 2018 Restated* |
|---|---|---|---|

### 38. Debt impairment

| | | | |
|---|---|---|---|
| Contributions to debt impairment - Exchange | 14 | 286 100 354 | 243 404 631 |
| Contributions to debt impairment - Non-exchange | 12 | 77 872 333 | 77 872 332 |
| | | **363 972 687** | **321 276 963** |

### 39. Bulk purchases

| | | |
|---|---|---|
| Electricity | 1 395 328 547 | 1 345 951 511 |
| Water | 233 628 257 | 206 536 912 |
| | **1 628 956 804** | **1 552 488 423** |

### 40. Repairs and maintenance

| | | |
|---|---|---|
| Repairs and maintenance | 387 706 926 | 355 848 175 |

| | | |
|---|---|---|
| **The above repairs and maintenance are made up of the below categories** | | |
| Infrastructure | 194 562 005 | 146 488 115 |
| Community assets | 7 635 086 | 9 607 139 |
| Other Assets | 23 151 326 | 37 324 063 |
| Furniture and fittings | 8 883 536 | 7 493 499 |
| Machinery and equipment | 127 315 594 | 125 740 055 |
| Transport assets | 26 159 379 | 29 195 304 |
| | **387 706 926** | **355 848 175** |

Included in the note above repairs and maintenance disclosure is a combination of property, plant and equipment and investment property.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 41. General expenses

| | | |
|---|---|---|
| Advertising | 11 257 169 | 12 976 946 |
| Assessment rates & municipal charges | 17 256 871 | 19 439 844 |
| Auditors remuneration | 15 740 807 | 13 479 474 |
| Bank charges | 5 202 859 | 4 955 249 |
| Cleaning | 517 427 | 528 645 |
| Commission paid | 39 072 491 | 39 328 655 |
| Legal costs | 33 563 385 | 16 001 235 |
| Consulting and professional fees | 14 652 420 | 9 626 916 |
| Consumables | 38 439 275 | 36 163 956 |
| Entertainment | 12 832 320 | 10 309 726 |
| Fines and penalties | 5 238 | 58 185 |
| Hire (Labour and plant) | 119 688 026 | 85 304 267 |
| Insurance | 22 969 090 | 19 911 145 |
| Conferences and seminars | 3 947 864 | 4 501 159 |
| IT expenses | 40 959 671 | 38 514 118 |
| Marketing | 4 513 802 | 2 832 548 |
| Levies | 17 096 693 | 15 832 040 |
| Magazines, books and periodicals | 1 098 798 | 972 914 |
| Motor vehicle expenses | 4 142 036 | 4 350 948 |
| Fuel and oil | 51 367 790 | 45 492 107 |
| Postage and courier | 6 454 752 | 6 169 750 |
| Printing and stationery | 7 050 990 | 7 925 681 |
| Promotions | 816 749 | 964 132 |
| Projects | 224 979 050 | 193 314 845 |
| License fees | 2 580 700 | 2 243 126 |
| Special events | 11 275 919 | 7 350 306 |
| Security (Guarding of municipal property) | 3 727 427 | 761 199 |
| Subscriptions and membership fees | 14 940 519 | 14 386 700 |
| Telephone and fax | 24 634 661 | 24 554 422 |
| Training | 12 037 802 | 8 627 538 |
| Travel - local | 16 662 360 | 16 236 577 |
| Travel - overseas | 1 470 705 | 1 023 049 |
| Title deed search fees | 649 957 | 132 980 |
| Utilities | 144 750 | 148 231 |
| Uniforms | 11 645 652 | 9 412 861 |
| Lease rentals on operating lease | 36 435 998 | 34 212 927 |
| Bursaries | 231 208 | 100 000 |
| Placement fees | 261 091 | 172 166 |
| Remuneration to WARD Committees | 7 072 336 | 6 780 343 |
| Corporate activities | 56 234 | 78 111 |
| Disconnections | 12 765 758 | 11 124 523 |
| Other expenses | 67 688 797 | 64 361 067 |
| | **917 907 447** | **790 660 611** |

## 42. Fair value adjustments

| | | |
|---|---|---|
| Investment property (Fair value model) | 8 923 274 | 31 775 077 |

Refer to note 3 for details of the valuer.

## 43. Auditors' remuneration

| | | |
|---|---|---|
| Audit fees | 15 740 807 | 13 479 474 |

## Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 44. Taxation

**Major components of the tax expense (income)**

| | | |
|---|---|---|
| **Current** | | |
| Local income tax - current period | 861 040 | (538 253) |

**Reconciliation of the tax expense**

Reconciliation between accounting surplus and tax expense.

| | | |
|---|---|---|
| Accounting surplus (deficit) | 3 069 906 | (2 325 382) |
| Tax at the applicable tax rate of 28% (2018: 28%) | 859 574 | (651 107) |
| **Tax effect of adjustments on taxable income** | | |
| Fines and penalties | 1 467 | 16 292 |
| Deferred tax effect - temporary differences | - | 96 562 |
| | **861 041** | **(538 253)** |

BCMDA is owned by BCMM which is not subjected to income tax. Management is making representations to SARS seeking exemption for the entity to pay income tax. However, in the mean time a provision has been made for income tax.

### 45. Cash generated from operations

| | Note | 2019 | 2018 |
|---|---|---|---|
| Surplus | | 518 437 620 | 216 657 455 |
| **Adjustments for:** | | | |
| Depreciation and amortisation | 36 | 1 300 025 257 | 1 017 025 636 |
| Gain on sale of assets and liabilities | 4 | 46 324 822 | 21 014 118 |
| Write off of Intangible assets | | - | 14 316 |
| Share of profit of associate | 7 | (76 747 032) | (32 544 710) |
| Fair value adjustment on Investment property revalued | 42 | (8 923 274) | (31 775 077) |
| Impairment deficit | | 18 537 | - |
| Debt impairment | 38 | 363 972 687 | 321 276 963 |
| Movement in operating lease assets and accruals | | - | (3 562) |
| Movement in retirement benefit assets and liabilities | 9 | (4 339 544) | 205 856 410 |
| Movement in provisions | 19 | 5 200 239 | 39 620 497 |
| Movement in tax receivable and payable | 46 | 576 090 | - |
| Deferred tax asset | 8 | 284 951 | (538 253) |
| PPE (Transfers / Adjustments) | 4 | (279 839 617) | (24 141 625) |
| Non-cash PPE | 4 | 1 832 031 | (3 393 725) |
| Intangible asset transfer | 5 | - | (18 213 980) |
| Opening balance adjustments | | - | (213 861 843) |
| **Changes in working capital:** | | | |
| Inventories | 10 | 5 450 253 | (4 220 046) |
| Receivables from exchange transactions - BCMDA | 11 | (245 271) | 780 604 |
| Movement in Receivables from exchange transactions | 14 | (445 065 666) | (328 546 470) |
| Other receivables from non-exchange transactions | 12 | (145 734 725) | 48 247 377 |
| Trade payables from exchange transactions | 22 | (33 014 102) | 300 808 974 |
| Movement in VAT receivables | 13 | (61 070 551) | (8 972 659) |
| Unspent conditional grants and receipts | 17 | (34 742 076) | (6 967 063) |
| Consumer deposits | 23 | 4 096 406 | 2 691 403 |
| | | **1 156 497 035** | **1 500 814 740** |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 46. Current tax payable

| | | |
|---|---|---|
| Balance at beginning of the year | 702 236 | 702 236 |
| Normal tax | 576 090 | - |
| **Closing balance** | **1 278 326** | **702 236** |

## 47. Operating leases - as lessee (expense)

| | | |
|---|---|---|
| **Minimum lease payments due - Buildings** | | |
| - within one year | 12 978 992 | 13 327 664 |
| - in second to fifth year inclusive | 2 493 034 | 13 546 076 |
| | **15 472 026** | **26 873 740** |

Operating lease payments represent rentals payable by the entity for certain of its office properties.

Leases are negotiated for an average term of five years and rental escalates at annual fixed rates that vary between 0% and 12% annually.

No contingent rent is payable.

| | | |
|---|---|---|
| **Minimum lease payments due - Printing Machines** | | |
| - within one year | 6 843 104 | 6 233 531 |
| - in second to fifth year inclusive | 4 497 985 | 9 628 890 |
| | **11 341 089** | **15 862 421** |

Operating lease payments represent rentals payable by the entity for certain of its printing machinery.

Leases are negotiated for an average term of three years and there is no rental escalation.

No contingent rent is payable.

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 48. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for - Property, plant and equipment** | | |
| • Community (including housing) | 299 835 115 | 350 099 255 |
| • Infrastructure | 291 115 048 | 684 938 681 |
| • Other | 4 304 364 | 4 262 168 |
| • Costruction/Development - Project Management Services - BCMDA | 9 556 429 | - |
| | **604 810 956** | **1 039 300 104** |

**Authorised operational expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Operating lease - Premises | 274 691 | 525 935 |
| • Operating lease - IT Equipment | 122 065 | 49 776 |
| • Hosting of internet and website services | 394 016 | 467 266 |
| • Provision of securuty services EL Beachfront | 342 141 | - |
| • System Upgrade to mSCOA compliance | 173 650 | 488 635 |
| • Feasibility Study for the development of Signal Hill, East London | 484 410 | - |
| • Provision of precinct designs and implementation services | - | 3 353 214 |
| • Supply and delivery of cloud based backup and recovery services | 272 349 | - |
| • Procurement of an electronic document management systems | - | 1 500 000 |
| | **2 063 322** | **6 384 826** |

| | | |
|---|---|---|
| **Total operational commitments** | | |
| Already contracted for but not provided for | 2 063 322 | 6 384 826 |

This committed expenditure relates to Infrastructure, Community and other Property, Plant and Equipment.
The above amounts exclude VAT.

**Operating leases - as lessee (expense)**

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 338 623 | 569 325 |
| - in second to fifth year inclusive | 67 311 | 7 187 |
| | **405 934** | **576 512** |

Operating lease payments represent rentals payable by the Agency in relation to office accommodation and two multipurpose printer/copier. Office accommodation lease is for a period of a year, wherein an option to renew was exercised for the lease to end on 30 November 2019. Printers/copiers rental agreement is for a period of three years with no escalation clause.

## 49. Contingencies

| | | |
|---|---|---|
| Litigation issues | 59 242 110 | 116 684 590 |
| Labour issues | 13 097 481 | 25 402 285 |
| Insurance issues | 74 742 247 | 63 192 911 |
| **Total contingent liabilities** | **147 081 838** | **205 279 786** |

**Contingent assets**

Due to the uncertainty relating to the inflow of the ecomic benefit / service potential, BCMM has no contingent assets.

## Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 50. Related parties

**Relationships**

| | |
|---|---|
| Controlled entities | Buffalo City Metropolitan Development Agency SOC Ltd |
| Associates | Refer to note 7 |
| Members of key management | Refer to note 31 and 32 |

Buffalo City Metropolitan Development Agency (BCMDA) (a SOC Ltd company registration no 2016/168330/30).

The BCMDA was incorporated on 20 April 2016 as a Municipal Entity of BCMM. BCMDA is 100% controlled by BCMM.

BCMM relationship with BCMDA: Subsidiary - Buffalo City Metropolitan Development Agency (SOC) Ltd.

The entity issued grants of R34 324 300 to BCMDA during the current financial year (2018: R23 100 000).

BCMDA has trade receivables of R1 029 620 (2018: R0 and trade payables of R0 (2018: R116 285) which relates to transactions with BCMM.

BCMM reimbursed BCMDA with an amount of R564 601 (2018: R0) for the implementation of the BCMDA Water World Project.

BCMDA has paid no consumer accounts during the current financial year.

There are no share based payments in respect of BCMDA.

There are no post-employment benefits for key personnel in respect of BCMDA.

BCMM paid an amount of R3 240 366 (2018: R2 953 301) VAT inclusive in respect of grass mowing, municipal services and office rental for the 2017/18 financial year to the East London IDZ.

All Councillors and Employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over Council in making financial and operating decisions.

**Key management information - BCMDA**

| Class | Description | Number |
|---|---|---|
| Non-executive board members | Board of Directors | 6 |
| Audit Committee | Shared with parent municipality | 6 |
| Executive management | Agency management | 4 |
| Councillors | Shareholder representative | 1 |

### 51. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

**Statement of financial position**

**Accumulated surplus prior to 2018**

| | Note | Error reference | As previously reported | Correction of error | Restated |
| --- | --- | --- | --- | --- | --- |
| Opening balance | | | 10 113 472 412 | - | 10 113 472 412 |
| PPE - Various | 4 | k,m,n,r | - | 73 984 182 | 73 984 182 |
| Investment property | 3 | j | - | (21 070 266) | (21 070 266) |
| Intangible assets | 5 | k,l | - | 7 835 222 | 7 835 222 |
| VAT receivable | 13 | h | - | (17 835 759) | (17 835 759) |
| Payables from exchange transactions - Retention monies | 22 | i | - | 658 680 | 658 680 |
| Payables from exchange transactions - Other creditors | 22 | a,f | - | (17 463 922) | (17 463 922) |
| Receivables from non-exchange transactions - Property rates | 12 | c,d | - | (385 541) | (385 541) |
| Receivables from exchange transactions | 14 | t | - | 568 305 | 568 305 |
| Investment in associate | 7 | g | - | 433 273 156 | 433 273 156 |
| Receivables from non-exchange transactions - Other receivables (billing) | 12 | t | - | 6 843 470 | 6 843 470 |
| Receivables from non-exchange transactions - Accrued income | 12 | b | - | (3 459 776) | (3 459 776) |
| Provision - Bonus (13th Cheques) | 19 | v | - | (35 846 211) | (35 846 211) |
| Employee benefit obligation | 9 | v | - | (184 862 038) | (184 862 038) |
| VAT receivable - BCMDA | 13 | - | - | (873) | (873) |
| | | **-** | **10 113 472 412** | **242 238 629** | **10 355 711 041** |

**2018**

| **Revaluation reserve** | Note | Error reference | As previously reported | Correction of error | Restated |
| --- | --- | --- | --- | --- | --- |
| Opening balance | | | 9 050 457 617 | - | 9 050 457 617 |
| PPE - Various | 4 | k,m,n | - | (4 227 146) | (4 227 146) |
| | | **-** | **9 050 457 617** | **(4 227 146)** | **9 046 230 471** |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

**51. Prior-year adjustments (continued)**

**Detail of Statement of Financial Position**

| | Note | Error reference | As previously reported | Correction of error | Re-classification | Restated |
|---|---|---|---|---|---|---|
| Investment property | 3 | j | 427 562 993 | (34 940 266) | - | 392 622 727 |
| PPE - Buildings | 4 | k,n | 142 215 759 | (142 215 759) | - | - |
| PPE - Plant and equipment | 4 | k,l | 29 373 101 | 23 545 223 | - | 52 918 324 |
| PPE - Furniture and fittings | 4 | k,l | 21 243 220 | 20 626 471 | 17 384 191 | 59 253 882 |
| PPE - Office equipment | 4 | k,l | 17 384 191 | - | (17 384 191) | - |
| PPE - Motor vehicles | 4 | k,l | 337 372 653 | 3 745 619 | - | 341 118 272 |
| PPE - Electricity infrastructure | 4 | k,l,m,n | 3 625 327 922 | 67 684 825 | - | 3 693 012 747 |
| PPE - Other properties | 4 | k | 898 877 846 | (232 704) | - | 898 645 142 |
| PPE - Work in progress | 4 | k,m,n,q,r | 3 153 145 860 | (190 835 696) | - | 2 962 310 164 |
| PPE - Recreational facilities | 4 | k | 255 861 178 | 10 074 444 | - | 265 935 622 |
| PPE - Roads | 4 | k,m,n | 5 070 660 376 | 18 202 331 | - | 5 088 862 707 |
| PPE - Wastewater network | 4 | k,n | 1 302 813 640 | 176 391 266 | - | 1 479 204 906 |
| PPE - Water network | 4 | k,p | 2 243 609 217 | 64 507 366 | - | 2 308 116 583 |
| PPE - Community buildings | 4 | k | 1 010 906 470 | (14 395 246) | - | 996 511 224 |
| Intangible assets | 5 | k,l | 18 884 486 | 6 179 329 | - | 25 063 815 |
| Investment in associate | 7 | g | 121 008 277 | 454 283 541 | - | 575 291 818 |
| VAT receivable | 13 | h | 127 982 442 | (17 836 632) | - | 110 145 810 |
| Payables from exchange transactions - Retention monies | 22 | i | (95 369 760) | 658 680 | - | (94 711 080) |
| Payables from exchange transactions - Other creditors | 22 | a,f | (46 382 700) | (32 804 120) | - | (79 186 820) |
| Payables from exchange transactions - Trade payables | 22 | e | (681 129 504) | 2 524 993 | - | (678 604 511) |
| Payables from exchange transactions - Payments received in advance | 22 | t | (126 723 055) | (4 646 377) | - | (131 369 432) |
| Payables from exchange transactions - Deposits received | 22 | u | (839 163) | (6 043 575) | - | (6 882 738) |
| Receivables from non-exchange transactions - Property rates | 12 | c,d | 431 077 615 | 4 775 866 | - | 435 853 481 |
| Receivables from non-exchange transactions - Other billing | 12 | t | 228 689 250 | (68 063 795) | 193 602 | 160 819 057 |
| Receivables from non-exchange - Impairment | 12 | | (391 435 417) | (10 891 929) | - | (402 327 346) |
| Receivables from non-exchange transactions - Accrued income | 12 | b | 433 488 035 | (42 361 926) | (391 126 109) | - |
| Receivables from exchange transactions - Accrued income | 14 | | - | - | 391 126 109 | 391 126 109 |
| Receivables from exchange transactions - Electricity | 14 | s,t | 298 544 178 | 31 195 541 | - | 329 739 719 |
| Receivables from exchange transactions - Housing rental | 14 | t | 193 602 | - | (193 602) | - |
| Receivables from exchange transactions - Refuse | 14 | t | 242 221 931 | 302 410 | - | 242 524 341 |
| Receivables from exchange transactions - Sewerage | 14 | t | 188 246 450 | 18 528 160 | - | 206 774 610 |
| Receivables from exchange transactions - Water | 14 | s,t | 479 319 769 | (52 804 189) | - | 426 515 580 |
| Unspent conditional grants - Provincial Government grants | 17 | b | (53 232 025) | 38 902 150 | - | (14 329 875) |
| Provision - Bonus(13th Cheques) | 19 | v | (201 756 224) | (39 743 169) | - | (241 499 393) |
| Employee benefit obligation - Long service award | 9 | v | - | (195 180 004) | - | (195 180 004) |
| | | - | - | **89 132 828** | - | - |

### 51. Prior-year adjustments (continued)

| **Summary of Statement of Financial Position** | | | **As previously reported** | **Correction of error** | **Re-classification** | **Restated** |
|---|---|---|---|---|---|---|
| Investment property | 3 | | 427 562 993 | (34 940 266) | - | 392 622 727 |
| Property, plant and equipment | 4 | | 18 190 726 208 | 37 098 140 | - | 18 227 824 348 |
| Intangible assets | 5 | | 18 884 486 | 6 179 329 | - | 25 063 815 |
| Investments in associates | 7 | | 121 008 277 | 454 283 541 | - | 575 291 818 |
| VAT receivable | 7 | | 127 982 442 | (17 836 632) | - | 110 145 810 |
| Receivables from non-exchange transactions | 12 | | 736 998 960 | (116 541 784) | (390 932 507) | 229 524 669 |
| Receivables from exchange transactions | 14 | | 508 985 451 | (2 778 078) | 390 932 507 | 897 139 880 |
| Trade payables from exchange transactions | 22 | | (1 028 166 798) | (40 310 399) | - | (1 068 477 197) |
| Unspent conditional grants | 17 | | (284 254 510) | 38 902 150 | - | (245 352 360) |
| Provision - Bonus(13th Cheques) | 19 | | (201 756 224) | (39 743 169) | - | (241 499 393) |
| Employee benefit obligation | 9 | | (537 974 627) | (195 180 004) | - | (733 154 631) |
| | | **-** | **18 079 996 658** | **89 132 828** | **-** | **18 169 129 486** |

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

**51. Prior-year adjustments (continued)**

**Detail of Statement of financial performance**

**2018**

| | Note | Error reference | As previously reported | Correction of error | Re-classification | Restated |
|---|---|---|---|---|---|---|
| Amortisation - Intangibles | 36 | k,l | 6 640 536 | 1 655 893 | - | 8 296 429 |
| Depreciation - PPE | 36 | o | 981 269 716 | 27 459 490 | - | 1 008 729 206 |
| Loss on disposal of asset | 4 | k | 2 499 363 | 14 329 157 | - | 16 828 520 |
| Fair value adjustment | 42 | 0 | (36 725 077) | - | 4 950 000 | (31 775 077) |
| Impairment of assets | | - | 4 950 000 | - | (4 950 000) | - |
| Share of surplus in associate | 7 | g | (11 534 322) | (21 010 388) | - | (32 544 710) |
| Employee related cost - Basic emoluments | 33 | a | 1 103 929 415 | 13 041 897 | - | 1 116 971 312 |
| Employee related cost - Pension fund contributions | 33 | a | 194 492 963 | 2 347 541 | - | 196 840 504 |
| Employee related cost - 13th Cheques | 33 | v | 77 149 199 | 3 896 958 | - | 81 046 157 |
| Employee related cost - Employee benefit obligation net cost | 33 | v | 32 307 448 | 10 317 966 | - | 42 625 414 |
| General expenses - Lease rentals on operating lease | 41 | e,f | 114 659 970 | (984 672) | (79 462 371) | 34 212 927 |
| General expenses - Projects | 41 | b | 265 987 094 | (72 592 522) | (79 726) | 193 314 846 |
| General expenses - Consumables | 41 | b | 36 134 227 | - | 29 728 | 36 163 955 |
| General expenses - Printing and stationary | 41 | b | 7 875 683 | - | 49 998 | 7 925 681 |
| General expenses - Hire (Labour and plant) | 41 | b | 5 841 896 | - | 79 462 371 | 85 304 267 |
| General expenses - Consulting and professional fees | 41 | b | 25 628 151 | - | (16 001 235) | 9 626 916 |
| General expenses - Legal costs | 41 | | - | - | 16 001 235 | 16 001 235 |
| Government grants - Housing projects | 31 | b | (71 002 960) | 71 002 960 | - | - |
| Property rates - Agricultural | 29 | c,d | (7 070 932) | 13 883 | - | (7 057 049) |
| Property rates - Commercial | 29 | c,d | (466 691 322) | 1 000 641 | - | (465 690 681) |
| Property rates - Educational | 29 | c,d | (12 561 681) | 54 825 | - | (12 506 856) |
| Property rates - Residential | 29 | c,d | (474 277 677) | (1 546 556) | - | (475 824 233) |
| Property rates - Vacant land | 29 | c,d | (43 934 354) | 131 849 | - | (43 802 505) |
| Service charges - Sale of water | 25 | s | (436 642 001) | 74 670 535 | - | (361 971 466) |
| Service charges - Sale of electricity | 25 | s | (1 661 074 270) | 9 694 913 | - | (1 651 379 357) |
| Service charges - Refuse | 25 | s | (249 496 723) | 4 316 065 | - | (245 180 658) |
| Service charges - Sewerage and sanitation | 25 | s | (304 733 420) | (51 363) | - | (304 784 783) |
| Repairs and maintenance | 40 | | 355 293 553 | 554 621 | - | 355 848 174 |
| Debt impairment | 38 | | 310 385 034 | 10 891 929 | - | 321 276 963 |
| Other revenue - Sundry income | 27 | | (12 693 817) | (317 004) | - | (13 010 821) |
| **Surplus for the year** | | - | - | **148 878 618** | - | - |

| **Summary of Statement of Financial Performance** | | **As previously reported** | **Correction of error** | **Re-classification** | **Restated** |
|---|---|---|---|---|---|
| Service charges | 25 | (2 678 192 210) | 88 630 150 | - | (2 589 562 060) |
| Property rates | 29 | (972 679 954) | (345 358) | - | (973 025 312) |
| Government grants | 31 | (1 819 159 969) | 71 002 960 | - | (1 748 157 009) |
| Employee related cost | 33 | 1 838 344 674 | 29 604 362 | - | 1 867 949 036 |
| Depreciation and amortisation | 36 | 987 910 252 | 29 115 383 | - | 1 017 025 635 |
| General expenses | 41 | 864 237 805 | (73 577 194) | - | 790 660 611 |
| Loss on disposal of asset | | 2 499 363 | 14 329 157 | - | 16 828 520 |
| Fair value adjustment | | (36 725 077) | - | 4 950 000 | (31 775 077) |
| Share of surplus in associate | 7 | (11 534 322) | (21 010 388) | - | (32 544 710) |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 51. Prior-year adjustments (continued)

| | | | | | | |
|---|---|---|---|---|---|---|
| Impairment of assets | | | 4 950 000 | - | (4 950 000) | - |
| Repairs and maintenance | 40 | | 355 293 553 | 554 621 | - | 355 848 174 |
| Debt impairment | 38 | | 310 385 034 | 10 891 929 | - | 321 276 963 |
| Other revenue - Sundry income | 38 | | (12 693 817) | (317 004) | - | (13 010 821) |
| | | **-** | **-** | **148 878 618** | **-** | **-** |

**Cash flow statement**

**2018**

| | Note | As previously reported | Correction of error | Restated |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Receipts - Sale of goods and services | 59 | 3 974 125 579 | 61 863 101 | 4 035 988 680 |
| Receipts - Government grants & subsidies | 59 | 1 817 654 822 | (69 497 813) | 1 748 157 009 |
| Receipts - Interest received | 28 | 175 866 976 | 145 046 | 176 012 022 |
| Payments - Employee costs & Councillors remunerations | 33&34 | (1 883 336 378) | (44 985 392) | (1 928 321 770) |
| Payments - Suppliers | 59 | (2 538 381 056) | 51 319 647 | (2 487 061 409) |
| Payments - Finance costs | 37 | (43 954 780) | (5 012) | (43 959 792) |
| | | **1 501 975 163** | **(1 160 423)** | **1 500 814 740** |
| **Cash flow from investing activities** | | | | |
| Purchase of property, plant and equipment | 4 | (1 330 245 372) | (1 751 634) | (1 331 997 006) |
| Proceeds from sale of property, plant and equipment | 4 | 13 799 849 | (13 687 127) | 112 722 |
| Proceeds from sale of investment property | 3 | 487 940 | 13 870 001 | 14 357 941 |
| | | **(1 315 957 583)** | **(1 568 760)** | **(1 317 526 343)** |
| **Cash flow from financing activities** | | | | |
| Net movement on borrowings | 18 | (47 641 565) | - | (47 641 565) |
| **Net cash flows used in investing activities** | | **(47 641 565)** | **-** | **(47 641 565)** |

| **Net cash flow** | **As previously reported** | **Correction of error** | **Restated** |
|---|---|---|---|
| Net (decrease)/increase in cash and cash equivalents | 138 376 015 | (2 981 394) | 135 394 621 |
| Cash and cash equivalents at the beginning of the year | 1 686 753 585 | 3 348 385 | 1 690 101 970 |
| **Cash and cash equivalents at the end of the year** | **1 825 129 600** | **366 991** | **1 825 496 591** |

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 51. Prior-year adjustments (continued)

**Explanations of errors**

a) Salaries and overtime paid in 2018/19 in respect of 2017/18 and prior years.

b) The prior period error is as a result of a revision in the treatment of Human Settlement Development Grant projects from GRAP 23 to GRAP 109.

c) Property rates valued and/or duplicated in error on the 2013 General Valuation.

d) Supplementary valuation implemented after property was sold.

e) Accrual raised in error and non payment of lease due to expired contract.

f) Adjustment of lease smoothing between the amount as per the contract to the actual amount paid for the 2017/18 financial year.

g) Adjusted share of surplus in associate in-line with IDZ audited AFS as at 31 March 2019 and IDZ first quarter AFS as at 30 June 2019.

h) A Value Added Tax review and recovery exercise was performed in respect of 2013/07 to 2018/06, which resulted in a correction of error.

i) Adjust balance on retention, incorrectly allocated when paid in respect of 2014/2015.

j) Adjustment in investment property values as at 30 June 2017 and 30 June 2018.

k) Recognition and de-recognition of assets that were acquired and disposed of in the previous financial years. The Municipality erroneously did not recognise and de-recognise these assets in the past.

l) To account for incorrect remaining useful lives as at 30 June 2017 and 30 June 2018.

m) To account for duplicated components on the asset register as at 30 June 2018.

n) To account for costs that were incorrectly allocated to asset capitalisations as at 30 June 2017.

o) Adjustments to accumulated depreciation on assets in previous years arising from de-recognitions, capitalisations not previously recognised and changes in remaining useful lives.

p) To account for negative carrying values on water infrastructure assets as at 30 June 2018.

q) Reclassification of repairs and maintenance expenditure that was incurred in the 30 June 2017 and 30 June 2018 financial years which meets the definition of an asset.

r) Reclassification of work in progress that were erroneously recognised by the Municipality in the previous financial year and reclassification of the same expenditure as general expenses.

s) Transfer revenue billed in the current year in respect of service charges relating 2017/18.

t) Re-alignment of debtor control variances to reconcile to the debtors age analysis.

u) Correction of prior year 2017/2018 general deposits - adjustment of incorrect alignment of water income and age analysis - June 2018.

v) This is now recognised in the 2018/2019 financial year and has been restated retrospectively.

### 52. Risk management

**Financial risk management**

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk Management is carried out under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

**Liquidity risk**

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.
Cash forecasts are prepared and adequate utilised borrowing facilities are monitored.

**Interest rate risk**

As the entity has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the entity to fair value interest rate risk.

The risk of a decrease in interest rate will place additional pressure to funding operations as a result of less income being realised from interest received.

**Cash flow interest rate risk**

| Financial instrument | Current interest rate | Due in less than a year | Due in one to two years | Due in two to three years | Due in three to four years | Due after five years |
|---|---|---|---|---|---|---|
| Trade and other receivables - normal credit terms | 11.25 % | 831 118 369 | 522 373 885 | - | - | - |
| Cash in current banking institutions | 6.25 % | 246 927 038 | - | - | - | - |
| Call Investments deposits | 6.58 % | 924 619 393 | - | - | - | - |
| Trade and other payables - extended credit terms | 10.25 % | 798 232 534 | - | - | - | - |
| Long term borrowings | 9.74 % | 57 973 556 | 54 395 605 | 45 190 555 | 49 140 564 | 138 853 808 |

These amounts best represent maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements.

**Sensitivity Analysis of Market Risk**

| Effect of a 1% change in the interest rate | Current interest rate | Value at 30 June 2019 | Discounted value at current rate | Discounted value at current rate (-1%) | Discounted value at current rate (+1%) | |
|---|---|---|---|---|---|---|
| Trade and other receivables - normal credit terms | 11.25 % | 831 118 369 | 747 072 691 | 753 848 861 | 740 417 255 | - |
| Trade and other payables | 10.25 % | 798 232 534 | 724 020 439 | 730 647 628 | 717 512 390 | - |
| Cash in current banking institutions | 6.25 % | 246 927 038 | 232 401 918 | 234 610 012 | 230 235 000 | - |
| Call investment deposits | 6.58 % | 924 619 393 | 867 535 554 | 875 752 409 | 859 471 457 | - |
| Short term borrowings | 9.74 % | 57 973 556 | 52 828 099 | 53 313 919 | 52 351 053 | - |
| Long term borrowings | 9.74 % | 287 580 532 | 262 056 253 | 264 466 187 | 259 689 843 | - |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

**52. Risk management (continued)**

The sensitivity analysis was based on the assumption that a 1% increase or decrease in the interest rate could occur.

The method used to prepare the sensitivity analysis was based on the discounted value of the respective cash flow for 1 year using the respective current interest rate in order to determine the effect of applicable market risk of a 1% increase or decrease in the interest rate.

**Credit risk**

Credit risk consists mainly of cash deposits (refer note 15) and trade debtors (refer note 12 + 14). The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

**Capital risk management**

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which incudes the borrowings, cash and cash equivalents and equity.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The entity is in an enviable position of having access to additional long term facilities in order to invest in the replacement of infrastructure assets.

**53. Going concern**

The unaudited consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

**54. Unauthorised expenditure**

| | 2019 | 2018 |
|---|---|---|
| Opening balance | 157 562 251 | 95 876 117 |
| Expenditure authorised in terms of section 32 of the MFMA | (157 562 251) | (95 876 117) |
| Unauthorised expenditure for the year | 22 164 227 | 157 562 251 |
| **Closing balance** | **22 164 227** | **157 652 251** |

**Analysed as follows: non-cash**

| | 2019 | 2018 |
|---|---|---|
| Employee related cost | 15 880 091 | - |
| Depreciation | - | 17 267 068 |
| Debt impairment | 5 636 221 | 135 456 597 |
| Loss on disposal of PPE | 647 915 | 2 499 363 |
| **Total** | **22 164 227** | **155 223 028** |

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 54. Unauthorised expenditure (continued)

**Analysed as follows: cash**

| | | |
|---|---|---|
| Remuneration of Councillors | - | 144 189 |
| Other expenditure | - | 2 195 034 |
| **Total** | **-** | **2 339 223** |

**The unauthorised expenditure can be attributed to difficulty of achieving budget accuracy for each expenditure type due to varying operational requirements. The 2019 unauthorised expenditure comprises the following:**

1) Employee related costs of R15.88 million, this is as a result of the bonus provision as well as the long service allowance raised at year end.
2) Debt impairment of R5.64 million, this is a result of more debts written off than projected.
3) Loss on disposal of assets of R0.648 million was incurred as a result of derecognition of assets and investment property and auctioned assets.

There is no unauthorised expenditure regarding the total budgeted amount.

**The 2018 unauthorised expenditure comprises the following:**

1) Depreciation and asset impairment of R17.27 million. Infrastructure assets were revalued at the end of the financial year in accordance with the accounting policy adopted by BCMM. The revaluation brought about additional depreciation.
2) Debt impairment of R135.45 million, this is a result of more debts written off than projected.
3) Remuneration of Councillors costs of R0.14 million.
4) Loss on disposal of assets of R2.5 million was incurred as a result of derecognition of assets and investment property.
5) Other expenditure of R2.19 million is as a result of reclassification from contracted services.
6) There is no unauthorised expenditure regarding the total budgeted amount.

### 55. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance | 5 794 525 | 5 319 926 |
| Acts of negligence | - | 35 420 |
| Interest charged on overdue accounts due to late payment. | 1 154 612 | 454 275 |
| Penalties (SARS) | 4 557 074 | - |
| Interest (SARS) | 6 667 364 | - |
| Fines and penalties - BCMDA | 5 238 | 62 926 |
| Travel and accommodation - BCMDA | - | 4 428 |
| Recovered during the year - BCMDA | (1 509) | (11 616) |
| **Closing balance** | **18 177 304** | **5 865 359** |

Staff members involved in acts of negligence resulted in the entity incurring losses totalling R0 (2018 : R35 420).

Late payment of invoices resulted in the Municipality incurring fruitless and wasteful expenditure of R1 154 612 (2018: 454 275).

SARS conducted an audit for the period May 2013 to March 2015 and charged interest and penalties amounting to R11 224 438 on disallowed input VAT.

BCMM has established a Municipal Public Accounts Committee (MPAC) which is constituted by Council to investigate all irregular, fruitless and wasteful expenditure. The MPAC recommends to Council the write off and future actions to be taken in accordance with the provisions in terms of Section 32 of the MFMA.

| Figures in Rand | 2019 | 2018 Restated* |
| --- | --- | --- |

### 56. Irregular expenditure

| | | |
| --- | --- | --- |
| Opening balance | 2 644 154 250 | 2 430 833 674 |
| Add: Irregular Expenditure - current year | 132 542 939 | 213 320 576 |
| **Closing balance** | **2 776 697 189** | **2 644 154 250** |

**Analysis of expenditure awaiting write-off per age classification**

| | | |
| --- | --- | --- |
| Current year | 132 542 939 | 213 320 576 |
| Prior years | 2 644 154 250 | 2 430 833 674 |
| | **2 776 697 189** | **2 644 154 250** |

**Details of irregular expenditure**

| | | |
| --- | --- | --- |
| Procurement made outside SCM regulations | 479 357 | 13 918 147 |
| Bid Construction Contracts (BCC) | 102 011 932 | 154 779 603 |
| Annual contracts | 23 074 315 | 15 485 573 |
| Formal contracts | 565 796 | 3 896 115 |
| Informal contracts | 396 720 | 143 478 |
| 3 Quotation System | 769 533 | 42 000 |
| Suppliers in service of state - Declared state employees | - | 2 681 571 |
| Suppliers in service of state - Not-declared state employees | 1 534 827 | 773 241 |
| Non-Approved deviations by Council - MFMA Regulation 36 on SCM | - | 21 600 848 |
| Other expired leases | 3 710 459 | - |
| | **132 542 939** | **213 320 576** |

### 57. In-kind donations and assistance

| | | |
| --- | --- | --- |
| FELZOO donated assistance to BCMM | 26 516 | 63 450 |
| FELA donated assistance to BCMM | 4 100 | 5 300 |
| Nahoon Point Nature Reserve | 71 371 | 56 230 |
| Nahoon Estuary Nature Reserve | 426 795 | 33 000 |
| | **528 782** | **157 980** |

### 58. Additional disclosure in terms of Municipal Finance Management Act

#### 58.1 Contributions to organised local government

| | | |
| --- | --- | --- |
| Current year contribution | 14 100 000 | 13 300 000 |
| Amount paid - current year | (14 100 000) | (13 300 000) |
| | - | - |

#### 58.2 Contributions to SA Cities Network

| | | |
| --- | --- | --- |
| Current year contribution | 3 783 552 | 2 276 010 |
| Amount paid - current year | (3 783 552) | (2 276 010) |
| | - | - |

#### 58.3 Audit fees

| | | |
| --- | --- | --- |
| Current year subscription / fee | 15 740 807 | 13 479 474 |
| Amount paid - current year | (15 740 807) | (13 479 474) |
| | - | - |

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 58. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### 58.4 PAYE, UIF and Skills Development Levy

| | | |
|---|---|---|
| Opening balance | 271 705 | - |
| Current year contribution | 336 070 479 | 306 409 448 |
| Amount paid - current year | (336 070 479) | (306 137 743) |
| Amount paid - previous years | (271 705) | - |
| | **-** | **271 705** |

#### 58.5 Pension and Medical Aid Deductions

| | | |
|---|---|---|
| Opening balance | 97 509 | - |
| Current year contribution | 485 750 078 | 442 998 253 |
| Amount paid - current year | (485 648 169) | (442 900 744) |
| Amount paid - previous years | (97 509) | - |
| | **101 909** | **97 509** |

#### 58.6 VAT

| | | |
|---|---|---|
| VAT receivable | 171 216 361 | 110 145 810 |

VAT output payables and VAT input receivables are shown in note 13 as net VAT receivable.

All VAT returns have been submitted by the due date throughout the year. Vat is only declared to SARS on receipt of payment from consumers and claimed on payment to suppliers.

### 58. Additional disclosure in terms of Municipal Finance Management Act (continued)

### 58.7 Councillors' and officials arrear consumer accounts

Arrear Councillors accounts totalling R36 074 were outstanding for more than 90 days at 30 June 2018 (2018 R32 278) for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor. The following amounts represent the total outstanding as at 30 June 2019 Stop orders are in place, whereby a monthly amount is deducted until the balance is settled.

| **30 June 2019** | **Outstanding more than 90 days R** | **Total R** |
|---|---|---|
| Councillor Z. Mtyingizane | 16 194 | 16 194 |
| Councillor I.T. Tongo-Luzipho | 9 264 | 9 264 |
| Councillor P. Nazo-Makatala | 5 623 | 5 623 |
| Councillor K. Ciliza | 2 688 | 2 688 |
| Councillor T.T. Apleni | 1 194 | 1 194 |
| Councillor M.T. Kolela | 616 | 616 |
| Councillor N.P. Peter | 414 | 414 |
| Councillor N.P. Matiwane | 81 | 81 |
| | **36 074** | **36 074** |

| **30 June 2018** | **Outstanding more than 90 days R** | **Total R** |
|---|---|---|
| Councillor N.P. Matiwane | 128 | 128 |
| Councillor N.E. Tshabe | 9 568 | 9 568 |
| Councillor Z. Mtyingizane | 17 253 | 17 253 |
| Councillor K. Ciliza | 4 541 | 4 541 |
| Councillor N.P. Peter | 485 | 485 |
| Councillor V. Tutu | 303 | 303 |
| | **32 278** | **32 278** |

At year end, officials accounts totalling R2 370 968 (2018: R1 106 097) were outstanding for more than 90 days.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

## 58. Additional disclosure in terms of Municipal Finance Management Act (continued)

### 58.8 Deviation from supply chain management regulations

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 36 of the SCM Policy of 2012 states that a SCM Policy must provide for the procurement of goods and services by way of a competitive bidding process.

Regulation 36 states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the unaudited separate annual financial statements.

During the financial year under review goods/services totaling R79 425 717 (2018: R36 396 328) were procured and the process followed in procuring those goods/services deviated from the provisions of the regulations as stated above. The accounting officer approved the deviations from the normal SCM regulations.

| **Incident** | | |
|---|---|---|
| Emergency | 1 | 1 627 189 |
| Sole supplier | 9 | 57 094 532 |
| Other exceptional cases | 4 | 20 703 996 |
| Deviations - BCMDA | 5 | 1 370 680 |
| | **19** | **80 796 397** |

| **58.9 Electricity Losses** | **Amount (R)** | **%** | **Amount (R)** | **%** |
|---|---|---|---|---|
| Technical | 80 916 897 | 5.80 | 86 918 136 | 6.50 |
| Non-technical | 221 156 808 | 15.85 | 149 583 908 | 9.58 |
| | **302 073 705** | **21.65** | **236 502 044** | **16.08** |

Total losses amounted to 322 739 881 kWh (2018: 263 249 658 KWh) of which 86 452 447 kWh (2018: 96 748 779 kWh) are technical losses and 236 287 434 kWh (2018: 166 502 196 kWh) are non-technical losses.

Technical Losses: Losses within the network which are inherent in any network.
Non-technical losses: Theft, faults and billing errors.
Attempts are currently being made to reduce these losses including the following:
- More than 6 000 informal dwellings have been electrified in the past 6 years.
- Informal settlements have been upgraded to formal houses in Mdantsane.
- Illegal connections are being removed on an ongoing basis.
- An audit of business customers was undertaken to reduce meter tampering.
- Smart meters are currently being installed within the BCMM area for business and certain domestic consumers.

| **58.10 Water Losses** | **Amount (R)** | **%** | **Amount (R)** | **%** |
|---|---|---|---|---|
| Technical | 91 327 066 | 26.61 | 109 093 280 | 33.98 |
| Non-technical | 66 889 926 | 19.50 | 31 169 626 | 9.71 |
| | **158 216 992** | **46.11** | **140 262 906** | **43.69** |

Total losses amounted to 29 566 498 KL (2018: 28 861 201 KL) of which 17 066 571 KL (2018: 22 447 582 KL) are technical losses and 12 499 927 KL (2018: 6 413 619 KL) are non-technical losses.

The above losses include rural areas and informal settlements.

Water losses are being addressed by the implementation of water conservation and water demand measures which include pipe replacement, water meter replacement etc.
A pipe replacement program is also underway prioritising areas experiencing frequent bursts.
A pressure reducing valve installation program has yielded results in reducing the frequency of bursts in areas with old infrastructure as well as areas where there is high demand.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | | 2019 | 2018 Restated* |
|---|---|---|---|

## 59. Cash flows from operating activities

| | Note | 2019 | 2018 Restated* |
|---|---|---|---|
| **Receipts : Sale of goods and services** | | | |
| Total revenue as per Statement of Financial Performance | | 7 273 440 327 | 6 224 946 900 |
| Less: Fair value adjustments | 42 | (8 923 274) | (31 775 077) |
| Less: Interest received | 28 | (165 783 829) | (176 012 022) |
| Less: Government grants and subsidies received | 31 | (1 918 941 337) | (1 748 157 009) |
| Loss on sale of assets | 4 | 46 324 822 | 21 014 118 |
| Movement in receivables from exchange transactions | 14 | (445 065 666) | (328 546 470) |
| Movement in receivables from non-exchange transactions | 12 | (145 734 725) | 48 247 377 |
| Movement in receivables from exchange transactions - BCMDA | 11 | (245 271) | 780 604 |
| Fair value adjustment on Investment Property revalued | 42 | 8 923 274 | 31 775 077 |
| Movement in VAT receivables | 13 | (61 070 551) | (8 972 659) |
| Net movement in consumer deposits | 23 | 4 096 406 | 2 691 403 |
| Movement in operating lease assets - BCMDA | | - | (3 562) |
| | | **4 587 020 176** | **4 035 988 680** |

| | Note | 2019 | 2018 Restated* |
|---|---|---|---|
| **Payment : Suppliers** | | | |
| Total expenditure as per the Statement of Financial Performance | | (6 793 468 614) | (6 052 119 051) |
| Employee costs and Councillors remuneration | 33&34 | 2 103 112 285 | 1 928 321 770 |
| Interest paid | 37 | 38 467 001 | 43 959 792 |
| Depreciation and amortisation | 36 | 1 300 025 257 | 1 017 025 636 |
| Loss on disposal of assets | 4 | (46 324 822) | (21 014 118) |
| Debt impairment | 38 | 363 972 687 | 321 276 963 |
| Net movement on unspent conditional grants | 17 | (34 742 076) | (6 967 063) |
| Movement in Post retirement medical aid benefit obligation | 9 | (4 339 544) | 205 856 410 |
| Movement in provisions relating to landfill sites | 19 | 5 200 239 | 39 620 497 |
| Movement in payables from exchange transactions | 22 | (33 014 102) | 300 808 974 |
| Movement in inventory | 10 | 5 450 253 | (4 220 046) |
| Intangible asset transfer | 5 | - | (18 213 980) |
| PPE (Transfers / Adjustments) | 4 | (279 839 617) | (24 141 625) |
| Non cash PPE additions | 4 | 1 832 031 | (3 393 725) |
| Opening balance adjustments | | - | (213 861 843) |
| | | **(3 373 669 022)** | **(2 487 061 409)** |

## 60. Deficit for the year

| | 2019 | 2018 Restated* |
|---|---|---|
| **Reconciliation of actual operating results to net income** | | |
| Net income for the period | 518 437 620 | 216 657 455 |
| Share of surplus of associate accounted for under the equity method | (76 747 032) | (32 544 710) |
| Capital expenditure ex grant funding | (997 754 177) | (930 587 543) |
| **Actual operating results** | **(556 063 589)** | **(746 474 798)** |

### 61. Retirement benefit information

The employees of the Council as well as the Council as employer, contribute to Municipal Pension, Retirement and various Provident Funds as listed below:

-Cape Joint Pension Fund / L A Retirement Fund
-Cape/Consolidated Retirement Fund
-Eastern Cape Local Authorities Provident Fund
-Government Employees Pension Fund
-Municipal Worker's Retirement Fund
-SALA Pension Fund
-Municipal Employees Pension Fund
- Municipal Councillors Pension Fund
- National Fund for Municipal Workers
-Aftredevoorsieningfonds vir Kaapse Plaaslike Owerhede
-East London Municipal A Band Provident Fund

The Cape Joint Pension Fund's / LA Retirement Fund's last actuarial valuation was at 30 June 2017 conducted by S. Neethling from Momentum Consultants and Actuaries. The fund was 102.6% funded at valuation date.

The Cape/Consolidated Retirement Fund's last actuarial valuation was at 30 June 2016 conducted by S. Neethling from MMI Group Limited who certified that the fund was in a sound financial position.

The Eastern Cape Local Authorities Provident Fund's last valuation was at 30 June 2018 conducted by E. Du Toit from Alexander Forbes Financial Services, who confirmed that the fund was in a sound financial position. The funding level was at 100% at valuation date.

The Government Employees Pension Fund's last valuation was at 31 March 2016 conducted by H. Buck . The funding level at this date was 115.8%.

Municipal Worker's Retirement Fund (previously known as SAMWU National Provient Fund) last actuarial valuation was at 30 June 2017 conducted by E.J. Potgieter and G. Base from Towers Watson (Pty) Ltd. The report stated that the fund was in a sound financial position as at 30 June 2017.

The SALA Pension Fund's last valuation was at 01 July 2015 conducted by J.F. Rosslee of ARGEN Actuarial Solutions. The fund was 100% funded as at valuation date. The valuator was satisfied with the investment strategy of the fund and the nature of the assets is in his opinion, suitable for the nature of the liabilities of the fund as defined in the rules of the fund.

The Municipal Employees Pension Fund's last interim valuation was at 28 February 2014 prepared by Itakane Consultants and Actuaries (Pty) Ltd. The report stated that the fund was financially sound and the funding level at this date was 100%

The Municipal Councillors Pension Fund's last valuation was at 30 June 2015 prepared by Mothapo R. and Barnard G.M. from Moruba Consultants and Actuaries. The report stated that the funding level was at 100% at the time of valuation.

The National Fund for Municipality Worker's last Actuarial Valuation was at 30 June 2015 and prepared by G. Grobler from Alexander Forbes Financial Services. The assets of the fund are sufficient to cover 100.42% of members' liabilities.

The East London Municipal A Band and the Aftredevoorsieningsfonds vir Kaapse Plaaslike Owerhede are a fixed/defined contributions funds. It is therefore not necessary to perform an actuarial valuation for these funds.

It is Council's policy to fund 60% of Pensioner's medical aid expenses. The current costs amount to approximately R 22,7 million.

An amount of R324,8 million (2018: R294,7 million) was contributed by Council, Councillors' and employees' in respect of Councillor and employee retirement funding. These contributions have been expensed.

# Notes to the Unaudited Consolidated Annual Financial Statements

| Figures in Rand | 2019 | 2018 Restated* |
|---|---|---|

### 62. Bids awarded to family of employees in service of the State

In terms of section 45 of the Municipal SCM regulation, any award above R 2 000 to family of an employee in the service of the State must be disclosed in the annual financial statements. The following is a list as recorded in the declaration-of-interest form:

| Connected person | Position held in BCMM | 2019 | 2018 |
|---|---|---|---|
| T. Nyati | PA to SCM GM | - | 49 182 |
| S. Majembe | Buyer | 82 472 | 242 674 |
| Z. Ndzondo | Bid Secretariat | 1 067 653 | 12 526 |
| C. Ruiters | Tender Co-ordinator | 190 599 | 129 907 |
| H. Lestig | Handy Man | - | 197 820 |
| S. Xoki | Chief Risk Officer | - | 180 000 |
| | | **1 340 724** | **812 109** |

| Connected person | Name of institution | 2019 | 2018 |
|---|---|---|---|
| F. Ngcwangu | EC Provincial Planning & Treasury | 1 534 826 | 2 333 375 |
| N. Maqula | Department of Human Settlements | - | 207 740 |
| D. Muzenda | National Lottery | - | 140 456 |
| | | **1 534 826** | **2 681 571** |